

CURRENCY, BANKING AND EXCHANGE

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PREFACE

In this work the author has endeavored to condense into one volume an outline of the history, law and theory of currency, banking and exchange. It is also hoped that it will be found useful either as a text-book for students or as a reference book for business men.

With the idea of rendering this volume of value as a reference book, the exact text of the various national laws on currency and banking has been freely quoted, including the text of the Federal Reserve Act as amended up to 1919 and the Federal Farm Loan Act of still more recent enactment.

On the controverted questions in the field of currency and banking, the author has endeavored to present both sides from an unprejudiced standpoint.

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CHAPTER I.

THE FUNCTIONS OF MONEY.

Section 1. The Functions of Money.

As is well understood by all students of Political Economy, money under our present economic system has a three-fold duty to perform; it must serve as a medium of exchange, as a measure of value, and as a standard of value, or, as the last is sometimes expressed, as a standard of deferred payments. To the above mentioned three functions might be added a fourth—that of a store of value.

Section 2. Money as a Medium of Exchange.

Under all stages of economic development except the very lowest and most barbarous, the exchange of commodities is a necessity both to the community and to the individual; and the more complex and highly developed an industrial organization becomes, and the further the subdivision of labor is carried, the more numerous and the more necessary must such exchanges become.

In the hunting stage of society each member, or at least each adult male member, of the uncivilized tribe or horde, will be engaged in the same general employments, and will be producing or securing the

same articles. Difference of production under such circumstances will be rather in amount than in kind, and little necessity, or even opportunity, for exchange of commodities will be experienced. Such rare exchanges as do take place under such circumstances will be almost anomalous in their character, and of little importance in the study of the life of these people. During the pastoral and early agricultural stage of human development, exchanges will be growing in importance and frequency, but will fall far short of their volume and importance at the present time. During these pastoral and early agricultural stages, however, we find some diversity of occupation and consequently some opportunities for exchange. Exchange of commodities will have become absolutely essential to some members of the community, for the securing of the necessities of life, and will be of benefit and convenience to all. This stage of industrial development, however, is still one in which the greater part of the members of the community (taking the family as the unit) can secure, though not without hardship, all of the absolute necessities of life by their own exertions and without resorting to any exchanges. For example, the farmer who has begun to buy his cloth of the weaver can succeed in clothing himself and his family with material which might be manufactured by members of his own family.

Under modern economic conditions, however, even the farmer (presumably the most independent of men economically) would be unable to exist without exchanges, except by a complete revolution in his methods and mode of life and a reversion to a

type long since outgrown by the world in its steady progress towards civilization and prosperity.

In the very lowest stages of economic development the necessary exchanges may be consummated by means of barter,¹ but when such a stage is passed a common medium of exchange becomes a necessity. This need is supplied by money.

The meaning of the term money should not be restricted to metallic or paper money, anything which serves as a commonly recognized medium of exchange falls under this head. Thus, beads, skins, tobacco, and various other commodities have been used as money. Care should be taken to distinguish between the use of such commodities as money and in barter. If a farmer exchanges corn for a skin of some animal, because he desires to use such skin to make clothes for himself or his family, such a transaction is barter; but if the farmer exchanges his corn for the skin, not because he has any personal use for such skin, but because such skins are a recognized medium of exchange in the community in which he lives, and because he knows that when he so desires he can exchange this skin for some article for which he does have a personal use, such a transaction is not barter, and the skin is money.

The various commodities which have been used as money or currency will be discussed in Chapter II on "The History of Currency."

Section 3. Money as a Measure of Value.

The second function of money to be developed, in point of time, was that as a measure of value. In

¹ See Chapter II, Section 7.

barter, the exchange of the particular commodities completed the transaction, and there remained nothing which could be used to designate the value of the article in general. If a certain quantity of grain was exchanged for the skin of a certain animal, it might be possible (taking the particular barter as the basis) to express the value of grain in skins or of skins in grain, but there was nothing to show the general value of either on the basis of comparison with the general mass of all commodities.

This important general measure of values was first rendered possible by the introduction of money. As soon as one commodity was adopted as the general medium of exchange, and all articles began to be exchanged for this chosen commodity, the values of all articles could be expressed in the terms of the chosen commodity, which thus became a general measure of value for all commodities. If copper became the money of a community, the value of grain was no longer expressed in skins, nor the value of skins in grain, but the value of each would be expressed in copper.

Section 4. Money as a Standard of Deferred Payments.

The function of money as a standard of deferred payments is but a step from its function as a measure of value, but several distinctions are to be noted between the two; and the function as a standard of deferred payments only came in with the giving of credit. As long as all sales or other commercial transactions are executed on both sides immediately, or, in other words, are "for cash," it is only

necessary to have a common measure of value from which the party selling goods for money can judge of the quantity of some other commodity he desires, that he can purchase with what money he has received, or can judge of the general purchasing power of such an amount of money.

Where the contract is not an executed one, and a payment of money is deferred to the future, it is necessary to have some standard of deferred payment by which the future transactions may be governed.

Most of the recent problems and disputes concerning money have been concerned with this function of money. Any commodity will answer as a measure of present value, but many difficulties have been, and still are being, experienced in securing a system of money which will serve as a true standard of deferred payments. For a discussion of these problems see Chapter II.

Section 5. Money as a Store of Value.

Little need be said relative to money as a store of value. When money is merely hoarded it is not performing its primary function as a medium of exchange, nor can it bring in any returns to its owner in the form of interest. As money, however, at least gold and silver money, combines great value with small size, and as it can always be exchanged for whatever commodities are desired, it possesses some advantages for hoarding above all other commodities. The use of money as a store of value, is more common in countries where the government is weak or unsettled, or where the mass of the inhabitants are

not fully civilized, and is of comparatively little importance in the United States today, except in times of panics, when fear prompts the hoarding of money, which in turn increases the force of the panic.

CHAPTER II.

HISTORY OF CURRENCY.

Section 6. Stages in the Evolution of Money.

In the earliest stages of economic history we find exchanges of commodities consummated through the medium of simple barter. At a somewhat later stage we find some commodity of general use, and some fair degree of permanency, adopted as a common medium of exchange. Finally, experience teaches that metals are in many ways superior to all other commodities for use as money. The first metals to be used are the less valuable ones, as iron and copper; but these are in turn superseded for general coinage purposes by the so-called precious metals, gold and silver. At a comparatively early date, paper money makes its appearance by the side of the metallic coins, and the final stage (to date) of the evolution of currency is reached when the work of money is to a great extent performed by the employment of credit.

Section 7. Barter.

Technically speaking, barter should not be treated under the chapter on the history of currency as by barter exchanges are effected without the use of currency. Barter is the exchange of an article, or articles, for an article, or articles, more desired by

the person receiving them. Barter as compared with a sale, might be considered, on first sight, as a short cut to a desired end. Under a currency system a man first sells what he has to dispose of, and with the money so received purchases what he desires. Here we have two transactions to accomplish a result which is achieved by barter as the result of a single transaction. The difficulties in the way of this single transaction of barter are infinitely greater, however, than in the two transactions of purchase and sale. The greatest difficulty in barter is that of getting together two persons whose articles desired to be disposed of mutually suit each other's wants. There must be double coincidence before any barter can be effected. One man has a pig and desires to exchange it for chickens. He may find many men who desire pigs without being able to effect a trade. The first man wanting a pig may offer a coat in exchange for it, the second may offer corn, the third a boat, the fourth furs, while the fifth may offer a cow in exchange for several pigs. On the other hand, the men owning chickens which they are willing to dispose of may none of them be willing to exchange any for a pig. Such a state of affairs, which is the natural one, makes the barter difficult.

A second difficulty is found, in many cases, in the difficulty, or even impossibility, of subdivision. The man with the pig may want nine chickens in exchange for it. If he finds one man with four chickens, another with three, and a third with two, which they are willing to exchange towards a pig, still no exchange is practical, through the impracticability of dividing the pig among the three men

who together can furnish the nine chickens. Again, if one article is worth four-fifths as much as another article, such articles can only be exchanged by giving five of one for four of another (which will generally be more than either party has to exchange, or wants to receive) or by agreeing upon some less valuable article to be used to balance the inequality in value, which brings in fresh problems and difficulties. Finally under a system of barter there can be no common measure of value to use in determining the relative value of different articles. There must be a ratio of exchange between each two articles offered in any market for exchange. When we only consider two commodities there would be two prices under a currency system, and only one ratio under the barter system; but when we come to consider ten commodities we find that while only ten prices are needed under a currency system to show the respective values of any two, forty-five ratios are required under a system of barter. With one hundred commodities the number of prices under the currency system has only risen to one hundred, while the number of necessary ratios under the system of barter has reached the large total of four thousand nine hundred and fifty (4,950).

Summing up the possibilities of barter it may be said in conclusion that it may supply the place of a system of currency, as a medium of exchange, in a partial and unsatisfactory manner, but that it can never to any extent supply the place of a system of currency as a measure of value or as a standard of deferred payment.

Section 8. Commodity Money.

Under this title of commodity money may be included all commodities which are selected as a general medium of exchange and as a common measure of value, on account of their general value, but which are used as a currency in their original forms instead of being put into some special form for use as money. In the case of such a system of currency no special part of the general mass of this commodity in the community is set aside to serve as the circulating medium. Any part of the general mass of the selected commodity may at any time do duty as currency to obtain other commodities which are desired for consumption. The most important of the commodities thus used as currency have been skins, cattle, and grain.

When in an advanced period of the hunting stage the necessity, or at least the utility, of a circulating medium began to be dimly discerned, the most natural one to be adopted would be that composed of the valuable skins of the animals which had been killed in the chase. Even in modern times we find skins and furs doing duty as currency on the borders of civilization. The use of leather money, found in many countries at far different periods of history, is an outgrowth and reminder of this early and rude form of currency.

Cattle were the important and almost the sole species of valuable property during the pastoral stage of economic development, and were the most common form of currency during this period.

"We have abundance of evidence, traditional, written and etymological, to show this. In the

Homeric poems oxen are distinctly and repeatedly mentioned as the commodity in terms of which other subjects are valued. The arms of Diomed are stated to be worth nine oxen, and are compared with those of Glaucos, worth one hundred. The tripod, the first prize for wrestlers in the 23rd Iliad, was valued at twelve oxen, and a woman captive, skilled in industry, at four. It is peculiarly interesting to find oxen thus used as the common measure of value, because from other passages it is probable, as already mentioned, that the precious metals, although as yet uncoined, were used as a store of value, and occasionally as a medium of exchange. The several functions of money were thus clearly performed by different commodities at this early period.

In several languages the name for money is identical with that of some kind of cattle or domesticated animal. It is generally allowed that pecunia, the Latin word for money, is derived from pecus, cattle. From the Agamemnon of Æschylus we learn that the figure of an ox was the sign impressed upon coins, and the same is said to have been the case with the earliest issues of the Roman As. A corresponding connection between these notions may be detected in much more modern languages. Our common expression for the payment of a sum of money is fee, which is nothing but the Anglo-Saxon feeh, meaning alike money and cattle.

In the ancient German codes of law, fines and penalties are actually defined in terms of live stock. In the Zend Avesta, as Professor Theodores further informs me, the scale of rewards to be paid to phy-

sicians is carefully stated, and in every case the fee consists in some sort of cattle. The fifth and sixth lectures in Sir H. S. Maine's most interesting work on 'The Early History of Institutions,' which has become an authority, are full of curious information showing the importance of live-stock in a primitive state of society. Being counted by the head, the kine was called capitale, whence the economical term capital, the law term chattel, and our common name cattle."¹

Although agricultural produce is not ordinarily suitable for use as currency, principally because of its (generally) extremely perishable character, nevertheless we find many examples of its use. Grain of various kinds is the best suited for this purpose, and has been impressed into services for this purpose in many countries even down to our own time. Other illustrations are to be found in the use of cocoanuts in Central America, tobacco in Virginia, and tobacco and corn meal as late as 1732 in Maryland. In some of the West Indies a successful plaintiff was once required by law to accept various kinds of raw produce, such as sugar, rum, molasses, ginger, indigo, and tobacco.²

Even manufactured commodities of various sorts have been adopted as currency.

"Such are the pieces of cotton cloth, called Guinea pieces, used for traffic upon the banks of the Senegal, or the somewhat similar pieces circulated in Abyssinia, the Sulu Archipelago, Sumatra, Mexico, Peru, Siberia, and among the Veddahs. It is less easy to

¹ Jevons' "Money and the Mechanism of Exchange," Chapter IV, pp. 21-3.

² Id.

understand the origin of the curious straw money which circulated until 1694 in the Portuguese possessions in Angola, and which consisted of small mats, called libongos, woven out of rice straw, and worth about $1\frac{1}{2}$ d each. These mats must have had, at least originally, some purpose apart from their use as currency, and were perhaps analogous to the fine woven mats so much valued by the Samoans, and also treated by them as a medium of exchange.

Salt has been circulated not only in Abyssinia, but in Sumatra, Mexico, and elsewhere. Cubes of benzoin, gum or beeswax in Sumatra, red feathers in the islands of the Pacific ocean, cubes of tea in Tartary, iron shovels or hoes among the Malagasy, are other peculiar forms of currency. The remarks of Adam Smith concerning the use of hand-made nails as money in some Scotch villages will be remembered by many readers, and need not be repeated. M. Chevalier has adduced an exactly corresponding case from one of the French coalfields.

Were space available it would be interesting to discuss the not improbable suggestion of Boucher de Perthes, that, perhaps after all, the finely worked stone implements now so frequently discovered were among the earliest mediums of exchange. Some of them are certainly made of jade, nephrite, or other hard stone, only found in distant countries, so that an active traffic in such implements must have existed in times of which we have no records whatever.

There are some obscure allusions in classical authors to a wooden money circulating among the Byzantines, and to a wooden talent used at Antioch and Alexandria, but in the absence of fuller informa-

tion as to their nature, it is impossible to do more than mention them."⁸

Section 9. The Metals as Money.

Metals had begun to come into use as money side by side with the various species of commodity currency, even before the dawn of authentic history. At the outset metal, of whatever kind used, was in itself a species of commodity currency, and the part to be used as currency was in no wise differentiated from the portion to be actually consumed by the community. Similarly as in the case of the commodities used as currency mentioned in the last section, metal was accepted as a commodity, because of its intrinsic value, and in the settlements for goods sold metal was taken by weight and not by count. In the earliest historical reference to metal as money, it is always referred to by weight. In the Old Testament, Abraham is referred to as weighing out four hundred shekels of silver, while the continued use under the Roman Law, of the scales as a required formality in certain classes of sales, bears witness of the early day when the scales were put to actual use for the purpose of weighing the uncoined metal.

Metals, however, possess certain characteristics, which were destined to ultimately result in a great advance in the currency systems of the world. Unlike most commodities metals are not only capable of practically uniform and indefinite subdivision, but metals once divided can be reunited without substantial loss. Furthermore, metals are capable

⁸ Jevons' "Money and the Mechanism of Exchange," Chapter IV, pp. 28-9.

of being made into whatever form or shape is desired.

As a result of these qualities, the introduction of coined money was made practical. The evolution from the acceptance of metal by weight to that by count was a gradual one. The first step was one merely intended to do away with the necessity of weighing the metal upon the occasion of each transaction. The metal would be put into the shape of bars, or other convenient forms, and then after being carefully weighed, the weight of the particular piece of metal would be stamped thereon. Here were the first rude coins, but the metal still passed by weight, and in case of doubt as to the accuracy of the stamp on the coin, the metal would be re-weighed.

Even later when coins of our modern character appeared, which were intended to circulate by count instead of by weight, the connection with the first style of coins could still be discerned. In all coinage systems the coins must be of a determined weight, and in early periods the name of the coin, generally, was derived from the weight of the metal contained therein. The English pound originally contained one pound weight of silver, and although the coin was soon debased far below this weight, the name has always been retained to the present day.

Section 10. The Various Metals.

Almost all of the more important metals have at some time and place been used for coinage purposes. The most important for this purpose have been gold, silver, copper, iron, and nickel. In general, it may be said that iron and copper were the early metals used for coinage purpose; that these were in turn

superseded by the more precious metals, gold and silver; that gold and silver for many centuries shared with each other the position of furnishing the standard of currency, and that finally this position has been practically monopolized by gold, silver falling into a secondary position. Copper and nickel with various alloys are now used for minor coins. The subject of coinage will be discussed in Chapter IV.

Section 11. Ancient Currency Systems.

The iron and copper standards of money were mainly confined to prehistoric times, although in a few cases, as, for instance, in Sparta, these standards continued down well into the historic period. In general, however, when we first begin to get a clear historic narrative of any people we find them using silver and gold as the basis of their currency. Copper was still greatly used, however, and furnished the basis for minor transactions. Silver was probably the first of the two precious metals to be used for money, and in general furnished the standard, gold being used only in the largest transactions, and as a store of value. The freedom of trade and intercourse between nations was not sufficient to produce any uniform ratio between the two metals, and such ratio varied all the way from 3 to 1 to 10 to 1. The amount of coin in circulation in a country generally depended as much upon its success in battle as upon the balance of trade, and all early currency systems were uncertain and variable. The great military success of Rome was the occasion of a greater accumulation of money in that country than had ever

been gathered together before, and, among other results, produced a more general use of gold as currency.

Section 12. Medieval Currency.

The history of currency in Medieval Europe has been thus summed up by a recent writer:

“From the beginning of the Christian era to the tenth century there seems to have been a steady decrease in the European supply of specie, owing chiefly to its movement from the West to the East to pay for luxuries. One authority estimates that the amount decreased from about \$1,800,000,000 to \$165,000,000 during this period. We must link this decrease in the specie with the fact that the feudal lords of Europe are generally opposed to its introduction into their fiefs; for as long as there was no money it was easy to exact payments in kind from their vassals. There was thus a natural warfare between commerce and money, on the one hand, and the feudal lord on the other. Scarcity of money and its poor circulation in Europe was therefore at once one of the principal economic causes of feudalism and at the same time the necessary effect of the continuation of the system. Another important cause for the scarcity of specie in circulation was the fact that for many centuries a large portion of it was either hoarded or used in the splendid services of the Church. A very large part of the specie used for monetary purposes during the Middle Ages was circulated without being coined, and when thus used was weighed by the pound, half pound, or mark, the most generally recognized standards of weight being

those of Troyes and Cologne. Gradually, however, the coinage of money increased, and we find a perplexing variety of coins, owing to the fact that each feudal prince, for a long time at least, generally controlled the coinage in his own domain. We also find continual fluctuations in the values of these coins, on account of the frequent alterations of the currency by the kings and feudal nobles. For some time after the overthrow of the Roman empire silver was the principal metal used for coins in the West, but Karl the Great was a bimetallist and tried to establish a ratio of one to sixteen between gold and silver, taking as the unit of value in his currency the value of a pound of silver. His system of coinage was introduced into most of the western countries, and his pound, or libra, gave its name to the English pound sterling and the French livre. Unfortunately, the division of his empire after his death prevented this system from continuing uniform.

The most important silver coins in general use during the Middle Ages were the silver bezant, worth from 25 to 50 cents; the denarius or pfennig, as it was known among the older Teutonic peoples, worth at first about 8 cents, but finally decreasing to about $2\frac{1}{2}$ cents; the silver florin, struck at Florence, and worth about 18 cents; the metapane, struck at Venice, and worth about 10 cents. Of these coins the one most widely used was the denarius or denier. In the fourteenth century a large denarius, or groat (grossus denarius) was struck, which was worth about 26 cents. Up to the time of the Crusades, the only gold coins known in Europe were the Byzantine solidi, or gold bezants, the Italian tari, and the Moor-

ish maurabotmi. The solidus was originally worth about \$3.25, but subsequently deteriorated in value, owing to frequent debasing. From the ninth century onwards, the solidi passed current throughout Europe, including England, under varying names, such as solde, sol, sou, solthing (in Livonia) and zololink (in Russia). The tari, or tatrentinim, named after the Italian city where it was first struck, was less generally used than the solidus, and was worth about 80 cents. The maurabotmi, or sarazens, were made of 15-carat gold; the name survives in the modern Spanish copper coin, the maravedi. After the Crusades we find other gold coins in circulation. In Italy were coined, in the thirteenth century, augustals, ducats, or sequins, and florentines or florins. The augustals were named in honor of the emperor, Frederick II, and weighed half an ounce. The florin contained fifty-four grains of gold and was worth about \$2.50. The ducat, named after the duca or doge, was coined by Venice in imitation of the florin and the value was about the same. Genoa, the Holy Roman Empire, and other states also imitated the gold florin; Hungary and the Rhine countries, in the fourteenth century, coined gold guilders that were nearly equivalent to the Italian florin. Smaller gold coins were struck in those countries where trade was most active, under the names of gold pennies, gold denars, and oboli. In addition to the above more generally used gold coins, there were many others in local use; as, for example, the French franc, the English noble, and the Flemish reals. After the discovery of the silver mines in South America the Spanish coins naturally became the most important in

Europe and partly or wholly supplanted many of the former coins. It must of course be remembered that the values here given do not give a true idea of the purchasing powers of these coins during the Middle Age. On account of the scarcity of money these coins then represented a much greater relative purchasing power than to-day.”⁴

Section 13. Modern European Currency.

The history of currency in Europe during the modern period was very similar to that during the Middle Ages. The systems of currency became very numerous. The right of coinage was a mark of sovereignty, and every petty sovereign prince was certain to assert his right in this respect both on account of the profit and the dignity connected with it. Mints were especially numerous in the German Empire on account of the very minute subdivision of political authority in that country.

There was little uniformity even among the coins from the same mint. Methods of coinage were rude and imperfect and coins would vary greatly in weight even when first coined, while the clipping and mutilation of the coins was so great as to render it necessary that (at least in all large transactions) payments should be by weight. For a long period perhaps the best money in Europe was the “bank money” of the Bank of Amsterdam. Among the metallic currency that which was coined by the Archbishops of Cologne and Troyes held high rank. As it was the Eastern trade which had drained Europe of its gold and silver for several centuries, the interruption to this

⁴W. C. Webster in “A General History of Commerce.”

trade, after the capture of Constantinople by the Turks of 1453, enabled the Western nations to increase their supply. During all this period the main body of metallic currency was silver, supplemented by a scant supply of gold.

One of the greatest advances in the history of currency was made by France, during the Revolutionary period, by the adoption of the decimal system.

The main events in the currency history of Europe in the nineteenth century were connected with the contest between gold and silver which is discussed in Sections 21-23.

It is impossible, in the limited space which can be given to this subject, to give a detailed account of the currency history of each European country; but that of England, given in the next section, will serve as an illustration.

Section 14. Currency History of England.

Rude gold coins seem to have been in circulation during the pagan period of English history. The currency during the Roman period was one of mixed gold and silver, but during the Anglo-Saxon and early Norman periods the currency in circulation seems to have been entirely of silver.

The early basis of currency was the silver "pound," and the coins actually struck off were almost entirely limited to the silver pennies. Shillings were not coined till a much later period. The standard silver "pound" was constantly debased by the various English kings until it only contained a small fraction of its early weight. From the fall of

the Roman Empire to the close of the seventeenth century, England, like her neighbors on the continent, suffered the evils of a debased and uncertain currency for over twelve hundred years. England, however, was the first of all European countries to remedy this state of affairs and secure the blessings of a sound currency.

The most dramatic description of the evils of a debased currency, the difficulties in correcting the same, and the incalculable benefits derived from so doing, ever written, is probably that contained in the twenty-first and twenty-second chapters of Macaulay's *History of England*, extracts from which are here given:

“It was of the highest importance that the House of Commons should, at that moment, be disposed to co-operate cordially with the King. For it was absolutely necessary to apply a remedy to an internal evil which had by slow degrees grown to a fearful magnitude. The silver coin, which was then the standard coin of the realm, was in a state at which the boldest and most enlightened statesmen stood aghast.

Till the reign of Charles the Second our coin had been struck by a process as old as the thirteenth century. Edward the First had invited hither skilful artists from Florence, which, in his time, was to London what London, in the time of William the Third, was to Moscow. During many generations, the instruments which were then introduced into our mint continued to be employed with little alteration. The metal was divided with shears and afterwards shaped and stamped by the hammer. In these operations much was left to the eye and the hand of the

workman. It necessarily happened that some pieces contained a little more and some a little less than the just quantity of silver; few pieces were exactly round and the rims were not marked. It was therefore discovered in the course of years that to clip the coin was one of the easiest and most profitable kinds of fraud. In the reign of Elizabeth it had been thought necessary to enact that the clipper should be, as the coiner had been long, liable to the penalties of high treason. The practice of paring down money, however, was far too lucrative to be so checked, and about the time of the Restoration, people began to observe that a large proportion of the crowns, half-crowns and shillings which were passing from hand to hand had undergone some slight mutilation.

That was a time fruitful of experiments and inventions in all the departments of science. A great improvement in the mode of shaping and striking the coin was suggested. A mill, which to a great extent superseded the human hand, was set up in the Tower of London. This mill was worked by horses, and would doubtless be considered by modern engineers as a rude and feeble machine. The pieces which it produced, however, were among the best in Europe. It was not easy to counterfeit them; and, as their shape was exactly circular, and their edges were inscribed with a legend, clipping was not to be apprehended. The hammered coins and the milled coins were current together. They were received without distinction in public, and consequently in private, payments. The financiers of that age seem to have expected that the new money, which was excellent, would soon displace the old money, which was much

impaired. Yet any man of plain understanding might have known that, when the State treats perfect coin and light coin as of equal value, the perfect coin will not drive the light coin out of circulation, but will itself be driven out. A clipped crown, on English ground, went as far in the payment of a tax or a debt as a milled crown. But the milled crown, as soon as it had been ground into the crucible or carried across the Channel became much more valuable than the clipped crown. It might therefore have been predicted, as confidently as anything can be predicted which depends on the only market in which they could fetch the same price as the superior pieces, and that the superior pieces would take some form or fly to some place in which some advantage could be derived from their superiority. The politicians of that age, however, generally overlooked these very obvious considerations. They marveled exceedingly that everybody should be so perverse as to use light money in preference to good money. In other words, they marveled that nobody chose to pay twelve ounces of silver when ten would serve the turn. The horse in the Tower still paced his rounds. Fresh wagon loads of choice money still came forth from the mill; and still they vanished as they appeared. Great masses were melted down; great masses exported; great masses hoarded; but scarcely one new piece was to be found in the till of a shop, or in the leathern bag which the farmer carried home after the cattle fair. In the receipts and payments of the Exchequer the milled money did not exceed ten shillings in a hundred pounds. A writer of that age mentions the case of a merchant who, in a sum of thirty-

five pounds, received only a single half-crown in milled silver. Meanwhile the shears of the clippers were constantly at work. The coiners, too, multiplied and prospered; for the worse the current money became the more easily it was imitated. During many years this evil went on increasing. At first it was disregarded; but it at length became an insupportable curse to the country. It was to no purpose that the rigorous laws against coining and clipping were rigorously executed. At every session that was held at the Old Bailey terrible examples were made. Hurdles, with four, five, six, wretches convicted of counterfeiting or mutilating the money of the realm, were dragged month after month up Holborn Hill. One morning seven men were hanged and a woman burned for clipping. But all was vain. The gains were such as to lawless spirits seemed more than proportioned to the risks. Some clippers were said to have made great fortunes. One in particular offered six thousand pounds for a pardon. His bribe was indeed rejected; but the fame of his riches did much to counteract the effect which the spectacle of his death was designed to produce. Nay, the severity of the punishment gave encouragement to the crime. For the practice of clipping, pernicious as it was, did not excite in the common mind a detestation resembling that with which men regard murder, arson, robbery, even theft. The injury done by the whole body of clippers to the whole society was indeed immense; but each particular act of clipping was a trifle. To pass a half-crown, after paring a pennyworth of silver from it, seemed a minute, an almost imperceptible fault. Even while the nation was crying out most

loudly under the distress which the state of the currency had produced, every individual who was capitally punished for contributing to bring the currency into that state had the general sympathy on his side. Constables were unwilling to arrest the offenders. Justices were unwilling to commit. Witnesses were unwilling to tell the whole truth. Juries were unwilling to pronounce the word Guilty. The convictions, therefore, numerous as they might seem, were few indeed when compared with the offenses; and the offenders who were convicted looked on themselves as murdered men, and were firm in the belief that their sin, if sin it were, was as venial as that of a schoolboy who goes nutting in the wood of a neighbor. All the eloquence of the ordinary could seldom induce them to conform to the wholesome usage of acknowledging in their dying speeches the enormity of their wickedness.

The evil proceeded with constantly accelerating velocity. At length in the autumn of 1695 it could hardly be said that the country possessed, for practical purposes, any measure of the value of commodities. It was a mere chance whether what was called a shilling was really tenpence, sixpence, or a groat. The results of some experiments which were tried at that time deserve to be mentioned. The officers of the exchequer weighed fifty-seven thousand two hundred pounds of hammered money which had recently been paid in. The weight ought to have been above two hundred and twenty-thousand ounces. It proved to be under one hundred and fourteen thousand ounces. Three eminent London goldsmiths were invited to send a hundred pounds each in current silver

to be tried by the balance. Three hundred pounds ought to have weighed about twelve hundred ounces. The actual weight proved to be six hundred and twenty-four ounces. The same test was applied in various parts of the kingdom. It was found that a hundred pounds, which should have weighed about four hundred ounces, did actually weigh at Bristol two hundred and forty ounces; at Cambridge, two hundred and three; at Exeter, one hundred and eighty, and at Oxford, only one hundred and sixteen. There were, indeed, some northern districts into which the clipped money had only begun to find its way. An honest Quaker, who lived in one of these districts, recorded, in some notes which are still extant, the amazement with which, when he traveled southward, shopkeepers and innkeepers stared at the broad and heavy half-crowns with which he paid his way. They asked whence he came, and where such money was to be found. The guinea which he purchased for twenty-two shillings at Lancaster bore a different value at every stage of his journey. When he reached London it was worth thirty shillings, and would indeed have been worth more had not the government fixed that rate as the highest at which gold should be received in the payment of taxes.

The evils produced by this state of the currency were not such as have generally been thought worthy to occupy a prominent place in history. Yet it may well be doubted whether all the misery which had been inflicted on the English nation in a quarter of a century by bad kings, bad ministers, bad Parliament, and bad judges, was equal to the misery caused in a single year by bad crowns and bad shillings. Those

events which furnish the best themes for pathetic or indignant eloquence are not always those which most affect the happiness of the great body of the people. The misgovernment of Charles and James, gross as it had been, had not prevented the common business of life from going steadily and prosperously on. While the honor and independence of the State were sold to a foreign power, while chartered rights were invaded, while fundamental laws were violated, hundreds of thousands of quiet, honest, and industrious families labored and traded, ate their meals and lay down to rest, in comfort and security. Whether Whigs or Tories, Protestants or Jesuits were uppermost, the grazier drove his beast to market; the grocer weighed out his currants; the draper measured out his broadcloth; the hum of buyers and sellers was as loud as ever in the towns; the harvest home was celebrated as joyously as ever in the hamlets; the cream overflowed the pails of Cheshire; the apple juice foamed in the presses of Herefordshire; the piles of crockery glowed in the furnaces of the Trent; and the barrows of coal rolled fast along the timber railways of the Tyne. But when the great instrument of exchange became thoroughly deranged, all trade, all industry, were smitten as with a palsy. The evil was felt daily and hourly in almost every place and by almost every class, in the dairy and on the threshing floor, by the anvil and by the loom, on the billows of the ocean and in the depths of the mine. Nothing could be purchased without a dispute. Over every counter there was wrangling from morning to night. The workman and his employer had a quarrel as regularly as the Saturday came round. On a fair

day or a market day the clamours, the reproaches, the taunts, the curses, were incessant; and it was well if no booth was overturned and no head broken. No merchant would contract to deliver goods without making some stipulation about the quality of the coin in which he was to be paid. Even men of business were often bewildered by the confusion into which all pecuniary transactions were thrown. The simple and the careless were pillaged without mercy by extortioners whose demands grew even more rapidly than the money shrank. The price of the necessaries of life, of shoes, of ale, of oatmeal, rose fast. The laborer found that the bit of metal which, when he received it, was called a shilling, would hardly, when he wanted to purchase a pot of beer or a loaf of rye bread, go as far as sixpence. Where artisans of more than usual intelligence were collected in great numbers, as in the dockyard at Chatham, they were able to make their complaints heard, and to obtain some redress. But the ignorant and helpless peasant was cruelly ground between one class which would give money only by tale and another which would take it only by weight. Yet his sufferings hardly exceeded those of the unfortunate race of authors. Of the way in which obscure writers were treated we may easily form a judgment from the letters, still extant, of Dryden to his bookseller Tonson. One day Tonson sends forty brass shillings, to say nothing of clipped money. Another day he pays a debt with pieces so bad that none of them will go. The great poet sends them all back and demands in their place guineas at twenty-nine shillings each. 'I expect,' he says in one letter, 'good silver, not such ■ I have had formerly.' 'If

you have any silver that will go,' he says in another letter, 'my wife will be glad of it. I lost thirty shillings or more by the last payment of fifty pounds.' These complaints and demands, which have been preserved from destruction only by the eminence of the writer, are doubtless merely a fair example of the correspondence which filled all the mail bags of England during several months." * * * *

"But happily for England there were among her rulers some who clearly perceived that it was not by halters and branding irons that her decaying industry and commerce could be restored to health. The state of the currency had during some time occupied the serious attention of four eminent men closely connected by public and private ties. Two of them were politicians who had never, in the midst of official and parliamentary business, ceased to love and honor philosophy; and two were philosophers, in whom habits of abstruse meditation had not impaired the homely good sense without which even genius is mischievous in politics. Never had there been an occasion which more urgently required both practical and speculative abilities; and never had the world seen the highest practical and highest speculative abilities united in an alliance so close, so harmonious, and so honorable as that which bound Somers and Montague to Locke and Newton.

It is much to be lamented that we have not a minute history of the conference of the men to whom England owed the restoration of her currency and the long series of prosperous years which dates from that restoration. It would be interesting to see how the pure gold of scientific truth found by the two

philosophers were mingled by the two statesmen with just that quantity of alloy which was necessary for the working. It would be curious to study the many plans which were propounded, discussed, and rejected, some as ineffectual, some as unjust, some as too costly, some as too hazardous, till at length a plan was devised of which the wisdom was proved by the best evidence, complete success.

Newton has left to posterity no exposition of his opinions touching the currency. But the tracts of Locke on this subject are happily extant; and it may be doubted whether in any of his writings, even in those ingenious and deeply meditated chapters on language which forms perhaps the most valuable part of the *Essay on the Human Understanding*, the force of his mind appears more conspicuously. Whether he had even been acquainted with Dudley North is not known. In moral character the two men bore little resemblance to each other. They belonged to different parties. Indeed, had not Locke taken shelter from tyranny in Holland, it is by no means impossible that he might have been sent to Tyburn by a jury which Dudley North had packed. Intellectually, however, there was much in common between the Tory and the Whig. They had laboriously thought out, each for himself, a theory of political economy, substantially the same which Adam Smith afterwards expounded. Nay, in some respects the theory of Locke and North was more complete and symmetrical than that of their illustrious successor. Adam Smith has often been justly blamed for maintaining, in direct opposition to all his own principles, that the rate of interest ought to be regulated by the

State; and he is more blamable because, long before he was born, both Locke and North had taught that it was as absurd to make laws fixing the price of money as to make laws fixing the price of cutlery or broadcloth.

Dudley North died in 1693. A short time before his death he published, without his name, a small tract which contains a concise sketch of a plan for the restoration of the currency. This plan appears to have been substantially the same with that which was afterwards fully developed and ably defended by Locke.

One question, which was doubtless the subject of many anxious deliberations, was whether anything should be done while the war lasted. In whatever way the restoration of the coin might be effected, great sacrifices must be made, either by the whole community or by a part of the community. And to call for such sacrifices at a time when the nation was already paying taxes such as, ten years before, no financier would have thought it possible to raise, was undoubtedly a course full of danger. Timorous politicians were for delay; but the deliberate conviction of the great Whig leaders was that something must be hazarded, or that everything was lost. Montague, in particular, is said to have expressed in strong language his determination to kill or cure! If, indeed, there had been any hope that the evil would merely continue to be what it was, it might have been wise to defer till the return of peace an experiment which must severely try the strength of the body politic. But the evil was one which daily made progress almost visible to the eye. There

might have been a recoinage in 1694 with half the risk which must be run in 1696; and, great as would be the risk in 1696, that risk would be doubled if the recoinage were postponed till 1698.

These politicians whose voice was for delay gave less trouble than another set of politicians, who were for a general and immediate recoinage, but who insisted that the new shilling should be worth only ninepence or ninepence halfpenny. At the head of this party was William Loundes, Secretary of the Treasury, and member of Parliament for the borough of Seaford, a most respectable and industrious public servant, but much more versed in the details of his office than in the higher parts of political philosophy. He was not in the least aware that a piece of metal with the King's head on it was a commodity of which the price was governed by the same laws which govern the price of a piece of metal fashioned into a spoon or a buckle, and that it was no more in the power of Parliament to make the kingdom richer by calling a crown a pound than to make the kingdom larger by calling a furlong a mile. He seriously believed, incredible as it may seem, that, if the ounces of silver were divided into seven shillings instead of five, foreign nations would sell us their wines and their silks for a small number of ounces. He had a considerable following, composed partly of dull men who really believed what he told them, and partly of shrewd men who were perfectly willing to be authorized by law to pay a hundred pounds with eighty. Had his arguments prevailed, the evils of a vast confiscation would have been added to all the other evils which afflicted the nation; public credit, still in its

tender and sickly infancy, would have been destroyed; and there would have been much risk of a general mutiny of the fleet and army. Happily Loundes was completely refuted by Locke in a paper drawn up for the use of Somers. Somers was delighted with this little treatise, and desired that it might be printed. It speedily became the text book of all the most enlightened politicians in the kingdom, and may still be read with pleasure and profit. The effect of Locke's forcible and perspicuous reasoning is greatly heightened by his evident anxiety to get at the truth, and by the singularly generous and graceful courtesy with which he treats an antagonist of powers far inferior to his own. Flamsteed, the astronomer royal, described the controversy well by saying that the point in dispute was whether five was six or only five.

Thus far Somers and Montague entirely agreed with Locke; but as to the manner in which the restoration of the currency ought to be effected, there was some difference of opinion. Locke recommended, as Dudley North had recommended, that the King should by proclamation fix a near day after which the hammered money should in all payments pass only by weight. The advantages of this plan were doubtless great and obvious. It was most simple and, at the same time, most efficient. What searching, fining, branding, hanging, burning, had failed to do, would be done in an instant. The clipping of the hammered pieces, the melting of the milled pieces, would cease. Great quantities of gold coin would come forth from behind the panels of wainscots. The mutilated silver would gradually flow into

the mint, and would come forth again in a form which would make mutilation impossible. In a short time the whole currency of the realm would be in a sound state; and, during the progress of this great change, there would never at any moment be any scarcity of money.

These were weighty considerations; and to the joint authority of North and Locke on such a question great respect is due. Yet it must be owned that their plan was open to one serious objection, which did not indeed altogether escape their notice, but of which they seem to have thought too lightly. The restoration of the currency was a benefit to the whole community. On what principle then was the expense of restoring the currency to be borne by a part of the community? It was most desirable doubtless that the words pound and shilling should again have a fixed signification that every man should know what his contracts meant, and what his property was worth. But it was not just to attain this excellent end by means of which the effect would be that every farmer who had put by a hundred pounds to meet his acceptances, would find his hundred pounds reduced in a moment to fifty or sixty. It was not the fault of such a farmer or of such a trader that his crowns and half-crowns were not full weight. The government itself was to blame. The evil which the State had caused the State was bound to repair, and it would evidently have been wrong to throw the charge of the reparation on a particular class, merely because that class was so situated that it could conveniently be pillaged. It would have been as reasonable to require the timber merchants to bear the

whole cost of fitting out the Channel fleet, or the gunsmiths to bear the whole cost of supplying arms to the regiments in Flanders, as to restore the currency of the kingdom at the expense of those individuals in whose hands the clipped silver happened at a particular moment to be.

Locke declared that he lamented the loss which, if his advice were taken, would fall on the holders of the short money. But it appeared to him that the nation must make a choice between evils. And in truth it was much easier to lay down the general proposition that the expenses of restoring the currency ought to be borne by the public than to devise any mode in which they could, without extreme inconvenience and danger, be so borne. Was it to be announced that every person who should, within a term of a year or half a year, carry to the mint a clipped crown should receive in exchange for it a milled crown, and that the difference should be made good out of the public purse? That would be to offer a premium for clipping. The shears would be more busy than ever. The short money would every day become shorter. The difference which the taxpayers would have to make good would probably be greater by a million at the end of the term than at the beginning; and the whole of this million would go to reward the malefactors. If only a very short time were allowed for the bringing in of the hammered coin, the danger of further clipping would be reduced to little or nothing; but another danger would be incurred. The silver would flow into the mint so much faster than it could possibly flow out, that there must during some months be a grievous scarcity of money.

A singularly bold and ingenious expedient occurred to Somers and was approved by William. It ~~was~~ that a proclamation should be prepared with great secrecy, and published at once in all parts of the kingdom. This proclamation was to announce that hammered coins would thenceforth pass only by weight. But every possessor of such coins was to be invited to deliver them up, within three days, in a sealed packet, to the public authorities. The coins were to be examined, numbered, weighed, and returned to the owner with a promissory note entitling him to receive from the Treasury at a future time the difference between the actual quantity of silver in his pieces and the quantity of silver which, according to the standard, those pieces ought to have contained. Had this plan been adopted, an immediate stop would have been put to the clipping, the melting, and the exporting; and the expense of the restoration of the currency would have been borne, as was right, by the public. The inconvenience arising from a scarcity of money would have been of a very short duration; for the mutilated pieces would have been detained only till they could be told and weighed; they would then have been sent back into circulation; and the recoinage would have taken place gradually and without any perceptible suspension or disturbance of trade. But against these great advantages were to be set off great hazards. The mutilated pieces would indeed not have been long detained. But they must all have been detained at once; or the same coin would have been presented in several places; and the public would thus have been cheated to an immense extent.

During three or four days the country would have been absolutely in a state of barter. And what tumults, what rebellions, might not three or four such days produce? To incur such danger without the previous sanction of Parliament was to run the risk of censure, impeachment, imprisonment, ruin. The King and the Lord Keeper were alone in the Council. Even Montague quailed; and it was determined to do nothing without the authority of the legislature. Montague undertook to submit to the Commons a scheme, which was not indeed without dangers and inconveniences, but which was probably the best which he could hope to carry. On the twenty-second of November the Houses met. Foley was on that day again chosen Speaker." ■ ■ ■ *

"Within the walls of Parliament the debates continued during several anxious days. At length Montague, after defeating, first those who were for letting things remain unaltered till the peace, and then those who were for the little shilling, carried eleven resolutions in which the outlines of his own plan were set forth. It was resolved that the money of the kingdom should be recoinced according to the old standard both of weight and of fineness; that all the new pieces should be milled; that the loss on the clipped pieces should be borne by the public; that ■ time should be fixed after which no clipped money should pass, except in payments to the government; and that a later time should be fixed, after which no clipped money should pass at all. What divisions took place in the Committee cannot be ascertained. When the resolutions were reported there was one division. It was on the question whether the old

standard of weight should be maintained. The Noes were a hundred and fourteen; the Ayes two hundred and twenty-five." * * * *

"The principles of the Recoinage Act are excellent. But some of the details, both of that Act and of a supplementary Act which was passed at a later period of the session, seem to prove that Montague had not fully considered what legislation can, and what it cannot, effect. For example, he persuaded the Parliament to enact that it should be penal to give or take more than twenty-two shillings for a guinea. It may be confidently affirmed that this enactment was not suggested or approved by Locke. He well knew that the high price of gold was not the evil which afflicted the State, but merely a symptom of that evil, and that a fall in the price of gold would inevitably follow, and could by no human power or ingenuity be made to precede, the recoinage of the silver. In fact, the penalty seems to have produced no effect whatever. Till the milled silver was in circulation, the guinea continued, in spite of the law, to pass for thirty shillings. When the milled silver became plentiful the price of the guinea fell; and the fall did not stop at twenty-two shillings, but continued till it reached twenty-one shillings and sixpence.

Early in February the panic which had been caused by the first debates on the currency subsided; and, from that time till the fourth of May, the want of money was not very severely felt. The recoinage began. Ten furnaces were erected in a garden behind the Treasury, which was then a part of the Whitehall, and which lay between the Banqueting

House and the river. Every day huge heaps of pated and defaced crowns and shillings were here turned into massy ingots, which were instantly sent off to the Mint in the Tower.” • * • •

“Meanwhile strenuous exertions were making to hasten the recoinage. Since the Restoration, the Mint had, like every other public establishment in the kingdom, been a nest of idlers and jobbers. The important office of Warden, worth between six and seven hundred a year, then a handsome independence, had become a mere sinecure, and had been filled by a succession of fine gentlemen, who were well known at the hazard table of Whitehall, but who never condescended to come near the Tower. This office had just become vacant, and Montague had obtained it for Newton. The ability, the industry, and the strict uprightness of the great philosopher speedily produced a complete revolution throughout the department which was under his direction. He devoted himself to his task with an activity which left him no time to spare for those pursuits in which he had surpassed Archimedes and Galileo. Till the great work was completely done, he resisted firmly, and almost angrily, every attempt that was made by men of science, here or on the Continent, to draw him away from his official duties. The old officers of the Mint had thought it a great feat to coin silver to the amount of fifteen thousand pounds in a week. When Montague talked of thirty or forty thousand, these men of form and precedent pronounced the thing impracticable. But the energy of the young Chancellor of the Exchequer and of his friend, the War-

den, accomplished far greater wonders. Soon nineteen mills were going at once in the Tower. As fast as men could be trained to the work in London, bands of them were sent off to other parts of the kingdom. Mints were established at Bristol, York, Exeter, Norwich, and Chester. This arrangement was in the highest degree popular. The machinery and the workmen were welcomed to the new stations with the ringing of bells and the firing of guns. The weekly issue increased to sixty thousand pounds, to eighty thousand, to a hundred thousand, and at length to a hundred and twenty thousand. Yet even this issue, though great, not only beyond precedent, but beyond hope, was scanty when compared with the demands of the nation. Nor did all the newly stamped silver pass into circulation; for during the summer and autumn those politicians who were for raising the denomination of the coin were active and clamorous; and it was generally expected that, as soon as the Parliament should reassemble, a strong effort would be made to carry a law enacting that ninepence should be a shilling. Of course no person who thought it probable that he should, at a day not far distant, be able to pay a debt of a pound with three crown pieces instead of four, was willing to part with a crown piece till that day arrived. Most of the milled pieces were therefore hoarded. May, June, and July passed away without any perceptible increase in the quantity of good money. It was not till August that the keenest observer could discern the first faint signs of returning prosperity.

The distress of the common people was severe,

and was aggravated by the follies of magistrates and by the arts of malcontents. The Lord Justices, by an order in Council, exhorted gentlemen who were in the Commission of the Peace to hold frequent meetings, and to see that both the laws for the relief of the poor, and the laws for the repression of vagrancy, were effectually put in execution. Those gentlemen were therefore unusually active, through this trying summer, in every part of the country; nor can it be doubted that their activity was on the whole beneficial. But unfortunately many of them, not content with discharging their proper functions, took upon them to administer a strange sort of equity; and as no two of these rural Praetors had exactly the same notion of what was equitable, their edicts added confusion to confusion. In one parish people were, in outrageous violation of the law, threatened with the stocks, if they refused to take clipped shillings except by weight. The enemies of the government, at the same time, labored indefatigably in their vocation. They harangued in every place of public resort, from the Chocolate House in Saint James Street to the sanded kitchen of the alehouse on the village green. In verse and prose they incited the suffering multitude to rise up in rebellion." * * * *

"Saturday, the second of May, had been fixed by Parliament as the last day on which the clipped crowns, half-crowns, and shillings were to be received by tale in payment of taxes. The Exchequer was besieged from dawn till midnight by an immense multitude. It was necessary to call in the guards for the purpose of keeping order. On the following Monday began a cruel agony of a few months, which

was destined to be succeeded by many years of almost unbroken prosperity.

Most of the old silver had vanished. The new silver had scarcely made its appearance. Several millions sterling, in ingots and hammered coins, were lying in the vaults of the Exchequer; and the milled money as yet came forth very slowly from the Mint. Alarmists predicted that the wealthiest and most enlightened kingdom in Europe would be reduced to the state of those barbarous societies in which a mat is bought with a hatchet, and a pair of moccasins with a piece of venison.

There were, indeed, some hammered pieces which had escaped mutilation; and sixpences not clipped within the innermost ring were still current. This old money and the new money together made up a scanty stock of silver which, with the help of gold, was to carry the summer and autumn. The manufacturers generally contrived, though with extreme difficulty, to pay their workmen in coin. The upper classes seemed to have lived to a great extent on credit. Even an opulent man had not the means of discharging the weekly bills of his baker and butcher. A promissory note, however, subscribed by such a man, was readily taken in the district where his means and character were well known. The notes of the wealthy money-changers on Lombard Street circulated widely. The paper of the Bank of England did much service, and would have done more, but for the unhappy error into which the Parliament had recently been led by Harley and Foley. The confidence which the public had felt in that powerful and opulent company had been shaken by the act

which established the Land Bank. It might be well doubted whether there would be room for the two rival institutions; and of the two, the younger seemed to be the favorite of the government and of the legislature. The price of the stock of the Bank of England had gone rapidly down from a hundred and ten to eighty-three. Meanwhile the goldsmiths, who had from the first been hostile to that great corporation, were plotting against it. They collected its paper from every quarter; and on the fourth of May, when the Exchequer had just swallowed up most of the old money, and when scarcely any of the new money had been issued, they flocked to Grocers' Hall, and insisted on immediate payment. A single goldsmith demanded thirty thousand pounds. The directors, in this extremity, acted wisely and firmly. They refused to cash the notes which had been thus maliciously presented, and left the holders to seek a remedy in Westminster Hall. Other creditors, who came in good faith to ask for their due, were paid. The conspirators affected to triumph over the powerful body, which they hated and dreaded. The bank which had recently begun to exist under such splendid auspices, which had seemed destined to make a revolution in commerce and in finance, which had been the boast of London and the envy of Amsterdam, was already insolvent, ruined, and dishonored. Wretched pasquinades were published; the Trial of the Land Bank for Murdering the Bank of England, the Last Will and Testament of the Bank of England, the Epitaph of the Bank of England, the Inquest on the Bank of England. But, in spite of all

this clamor and all this wit, the correspondents of the States General reported that the Bank of England had not really suffered in the public esteem, and that the conduct of the goldsmiths was generally condemned.

The directors soon found it impossible to procure silver enough to meet every claim which was made on them in good faith. They then bethought them of a new expedient. They made a call of twenty per cent on the proprietors, and thus raised a sum which enabled them to give every applicant fifteen per cent in milled money on what was due to them. They returned him his note, after making a minute upon it that part had been paid. A few notes thus marked are still preserved among the archives of the Bank as memorials of that terrible time. The paper of the Corporation continued to circulate, but the value fluctuated violently from day to day, and indeed from hour to hour, for the public mind was in so excitable a state that the most absurd lie which a stockjobber could invent sufficed to send the price up or down. One week the discount was only six per cent, in another week twenty-four per cent. A ten-pound note, which had been taken in the morning as worth more than nine pounds, was often worth less than eight pounds before night.

Another, and, at that conjuncture, a more effectual substitute for a metallic currency, owed its existence to the ingenuity of Charles Montague. He had succeeded in engrafting on Harley's Land Bank Bill a clause which empowered the government to issue negotiable paper bearing interest at the rate of three-

pence a day on a hundred pounds. In the midst of the general distress and confusion appeared the first Exchequer Bills, drawn for various amounts from a hundred pounds down to five pounds. These instruments were rapidly distributed over the kingdom by the post, and were everywhere welcome. The Jacobites talked violently against them in every coffee house, and wrote much detestable verse against them, but to little purpose. The success of the plan was such that the ministers at one time resolved to issue twenty-shilling bills, and even fifteen-shilling bills, for the payment of the troops. But it does not appear that this resolution was carried into effect.

It is difficult to imagine how, without the Exchequer Bills, the government of the country could have been carried on during that year. Every source of revenue had been affected by the state of the currency; and one source, on which the Parliament had confidently reckoned for the means of defraying more than half the charge of the war, had yielded not a single farthing. * * * *

“The truth was that the behavior of the great body of the people was beyond all praise. The Judges when, in September, they returned from their circuits, reported that the temper of the nation was excellent. There was a patience, a reasonableness, a good nature, a good faith, which nobody had anticipated. Everybody felt that nothing but mutual help and mutual forbearance could prevent the dissolution of society. A hard creditor, who sternly demanded payment to the day in milled money, was pointed at in the streets, and was beset by his own

creditors with demands which soon brought him to reason." * * * *

"In fact, the tide had already turned. From the moment at which the Commons notified their fixed determination not to raise the denomination of the coin, the milled money began to come forth from a thousand strong boxes and private drawers. There was still pressure, but that pressure was less and less felt day by day. The nation, though still suffering, was joyful and grateful. Its feelings resembled those of a man who, having been long tortured by a malady which has embittered his existence, has at last made up his mind to submit to the surgeon's knife, who has gone through a cruel operation with safety, and who, though still smarting from the steel, sees before him many years of health and enjoyment, and thanks God that the worst is over. Within four days after the meeting of Parliament there was a perceptible movement in trade. The discount on bank notes had diminished by one-third. The price of those wooden tallies, which, according to a usage handed down to us from a rude age, were given as receipts for sums paid into the Exchequer, had risen. The exchanges which had during many months been greatly against England, had begun to turn." * * * *

"Meanwhile the mints were pouring forth the new silver faster than ever. The distress which began on the fourth of May, 1696, which was almost insupportable during the five succeeding months, and which became lighter from the day on which the Commons declared their immutable resolution to maintain the old standard, ceased to be painfully felt in March, 1697. Some months were still to elapse

before credit completely recovered from the most tremendous shock that it had ever sustained. But already the deep and solid foundation had been laid on which was to rise the most gigantic fabric of commercial prosperity that the world has ever seen."

Such long extracts from Macauley have been given on account of the extremely graphic description which they give of one of the most important and instructive currency crises in the world's history.

England was the first country to definitely and intentionally adopt the gold standard.

CHAPTER III.

HISTORY OF AMERICAN CURRENCY.

Section 15. Colonial Currency.

The early American colonists brought with them a small stock of currency from England. English coins, naturally, constituted the first circulating medium in America. The colonists being poor, and greatly in need of capital for the development of a new country, could ill afford to tie up any large part of the capital which they did possess in a circulating medium consisting of coins composed of the precious metals, and many attempts were made to create some substitute currency, which would answer all the purposes of local exchange, so that the gold and silver could be used in purchasing much needed articles from the Old World. In New England the settlers adopted, to some extent, the Wampumpeag currency of the Indians, allowing six white beads, or three black beads, to circulate as the equivalent of a penny; while in all the colonies traces of a system of commodity currency are to be found.

Such a currency system could not fail to produce much inconvenience and hardship, and within a few

years an attempt was made to establish a colonial coinage. Massachusetts led the way in this movement.

“In 1652 Massachusetts set up a mint at Boston to coin this metal and try to keep it in circulation. They coined shillings, sixpences, and threepences, and continued to do so for many years, but, as it was a breach of the prerogative to coin, they dated all the coins 1652. The coins were to be of sterling alloy 11/12 fine, and the shilling worth 10d. for coining. The mint master had 15d. in 20s. for coining. As silver was worth 5s. 2d. sterling per oz., if the New England shillings had been equal to 10d. sterling each, silver should have been worth 6s. 2½d. New England currency per oz., but as the mint master kept 15d. out of every 20s., silver was worth 6s. 7d. New England currency per oz., if the coin was up to its own standard. It would, therefore, have been 22 per cent worse than sterling. The English Mint declared it not of even weight or fineness, and it was taken in England only at 25 per cent discount. The normal rate, therefore, was 6s. 8d. per oz. The law forbade exportation on penalty of forfeiting all visible estate. Of course, this restrained but it did not prevent it. This currency, known as the ‘pine tree’ currency, forms the standard by which calculations were made from this time on.”¹

The attempt to have the pine tree silver, the Wampumpeag, and the commodity currency circulate together resulted, by the application of Gresh-

¹“A History of American Currency,” by William G. Sumner, pp. 11-12.

am's law² in the poorer currency driving out the better, and it was found impossible to keep any considerable quantity of the pine tree currency in circulation. About the only silver coins in circulation at this time were the Spanish coins, especially the dollar or piece of eight, which was brought into the colonies through the trade with the West Indies and by the buccaneers, whose occupation at this time was both honorable and profitable. This use of Spanish coins continued down through the revolutionary period and exerted an important influence upon the currency standard adopted by the United States.

With the first expedition against Canada in 1690 Colonial paper money made its appearance. Seven thousand pounds of this money was issued by Massachusetts; as the amount was not excessive and as the Colony did not herself dishonor it by refusing to receive it for taxes, no serious depreciation took place.

The second expedition against Canada in 1709 resulted in a much larger issue of paper money by Massachusetts, and New Hampshire, Rhode Island, Connecticut, New York and New Jersey also began to issue bills of credits. From this time on the eighteenth century witnessed a rapid increase in the amount of the Colonial bills of credits in circulation, and also a rapid depreciation in their value.

The banks and their bills of credit which sprang into existence at this time will be discussed in a later chapter.³

By the time of the fall of Louisburg in 1749 the

² See Section 65.

³ See Chapter VII.

paper issues of the New England colonies had reached the following figures:

Massachusetts	£2,466,712
Connecticut.....	281,000
Rhode Island.....	550,000
New Hampshire.....	450,000 ⁴

The Colonies at this time were practically bankrupt, as was acknowledged in effect by Massachusetts, which used the sum voted by her by Parliament for the relinquishment of her rights in the captured fortress of Louisburg to redeem the greater part of her bills of credit, buying them in at the ratio of 1 to 11.

Rhode Island at this time went squarely on a paper money basis. The other Colonies adopted more or less half-way measures, but in none of them was paper money abolished.

In 1751 Parliament passed an act prohibiting any more issues of paper money which were made legal tender, but this law was afterwards evaded or disregarded.

Gold coins slowly came into use in the Colonies during the eighteenth century. These coins were not legal tender and circulated by weight. Gold was first made legal tender in Massachusetts in 1762 at 2½d. per grain. Gold was overvalued at this rate, and silver was mostly driven out of circulation, with a resulting shortage of money in the colony. At the close of the Colonial period the currency of the country was in a very confused condition. Gold and silver

⁴ "A History of American Currency," by William G. Sumner, p. 33.

⁵ Id. page 44.

coins of English, Spanish and Colonial minting, and paper money of various degrees of depreciation all circulated. Massachusetts in 1774 had no outstanding bills of credit, but the following year was obliged to permit the paper money of other Colonies to circulate within her boundaries.

Section 16. Revolutionary Currency.

The Continental Congress began to issue Continental bills of credit in 1775.

“Paper for nine million dollars was issued before any depreciation began. The issues of the separate colonies must have affected it, but the popular enthusiasm went for something. Pelatiah Webster, almost alone as it seems, insisted on taxation, but a member of Congress indignantly asked if he was to help tax the people when they could go to the printing-house and get a carload of money. In 1776, when the depreciation began, Congress took harsh measures to try to sustain the bills. Committees of safety also took measures to punish those who ‘forestalled’ or ‘engrossed,’ these being the terms for speculators who bought up for a rise.”⁵

By 1779 Congress was almost swamped under the load of paper money which it had issued, and but for the foreign loans which were finally floated, and the almost superhuman ability and energy of Robert Morris, the great revolutionary Secretary of the Treasury, the Revolution must probably have collapsed for financial reasons.

The banking history of this period will be discussed in a later chapter.⁶

⁵ See Chapter VII, Section 44.

Section 17. Currency History of the United States From the Close of the Revolutionary War to the Adoption of the Constitution.

The condition of the currency was, if such a thing was possible, even more unsatisfactory in the years immediately following the close of the Revolutionary War than during the days of the great struggle itself. A little of the miscellaneous collection of foreign silver coins which had gone into hiding during the Revolutionary period began to make its appearance, but the great mass of the currency still remained the depreciated "Continental" and State bills of credit. Continued new issues by many of the States further added to the vast load of paper currency, and still further depreciated its value. Laws passed for the purpose of keeping up the value of State notes were without avail. In Rhode Island, the State which above all others suffered from its paper money policy, it was not only provided by law that the greatly depreciated paper currency of the State should be full legal tender, at par, for all previously existing debts, but that it should be a crime to refuse to receive it at par for any articles offered for sale. This last provision, however, was declared unconstitutional by the Supreme Court of the State in the famous case of *Trevett vs. Weeden*.

There were few things which contributed more to bring the country to the desperate condition in which it is found in 1787-8 than the condition of its circulating medium. The silver lining to the cloud was found in the fact that this was one of the conditions which drove the people to a realization of the

necessity of the adoption of a new and "more perfect union."

Section 18. The Establishment of the American System.

The most important work of the first Congress was the reformation of the financial status of the United States. In 1789-1791 acts were passed to provide for the payment of the public debt of the United States, for the settlement of the accounts with the States, to give assistance to the States in the payment of their debts, for the raising of revenue by a tariff and other methods, and for the establishment of a National bank. The work of creating a national currency was left to the second Congress, which in 1792 passed an act entitled:

"An Act establishing a Mint, and regulating the Coins of the United States;" whose provisions were, in part, as follows:

"Sec. 9. And be it further enacted, That there shall be from time to time struck and coined at the said mint, coins of gold, silver, and copper, of the following denominations, values and descriptions, viz.: Eagles—each to be of the value of ten dollars or units, and to contain two hundred and forty-seven grains and four-eighths of a grain of pure, or two hundred and seventy grains of standard gold.

(Half-eagles and quarter-eagles of corresponding weights and fineness.)

Dollars or Units—each to be of the value of a Spanish milled dollar as the same is now current, and to contain three hundred and seventy-one grains and

four-sixteenths parts of a grain of pure or four hundred and sixteen grains of standard, silver.

(Half-dollars, quarter-dollars, and half-dimes of corresponding weights and fineness, and cents and half-cents of copper.)

Sec. 11. And be it further enacted, That the proportionate value of gold to silver in all coins which shall by law be current as money within the United States, shall be as fifteen to one, according to quantity in weight, of pure gold or pure silver; that is to say, every fifteen pounds weight of pure silver shall be of equal value in all payments with one pound weight of pure gold, and so in proportion as to any greater or less quantities of the respective metals.

Sec. 12. And be it further enacted, That the standard for all gold coins of the United States shall be eleven parts fine to one part alloy, and accordingly that eleven parts in twelve of the entire weight of each of the said coins shall consist of pure gold, and the remaining one-twelfth part of alloy; and the said alloy shall be composed of silver and copper, in such proportions not exceeding one-half silver, as shall be found convenient, to be regulated by the director of the mint, for the time being, with the approbation of the President of the United States, until further provision shall be made by law.

Sec. 13. And be it further enacted, That the standard for all silver coins of the United States shall be one thousand four hundred and eighty-five parts fine to one hundred and seventy-nine parts alloy; and accordingly that one thousand four hundred and eighty-five parts in one thousand six hundred and

sixty-four parts of the entire weight of each of the said coins shall consist of pure silver, and the remaining one hundred and seventy-nine parts of alloy; which alloy shall be wholly of copper.

Sec. 14. And be it further enacted, That it shall be lawful for any person or persons to bring to the said mint gold and silver bullion, in order to their being coined; and that the bullion so brought shall be there assayed and coined, as speedily as may be after the receipt thereof, and that free of expense to the person or persons by whom the same bullion shall have been coined, the person or persons by whom the same shall have been delivered shall upon demand receive in lieu thereof coins of the same species of bullion which shall have been so delivered, weight for weight, of the pure gold or pure silver therein contained; Provided, nevertheless, that it shall be at the mutual option of the party or parties bringing such bullion, and of the director of the said mint, to make an immediate exchange of coins for standard bullion, with a deduction of one-half per cent from the weight of the pure gold or pure silver contained in the said bullion, as an indemnification to the mint for the time which will necessarily be required for coining the said bullion, and for the advance which shall have been so made in coins.

Sec. 16 And be it further enacted, That all the gold and silver coins which shall have been struck at and issued from the said mint shall be a lawful tender in all payments whatsoever, those of full weight according to the respective values herein before declared, and those of less than full weight at values proportioned to their respective weights.

Sec. 20. And be it further enacted, That the money of account of the United States shall be expressed in dollars or units, dimes or tenths, cents or hundredths, and mills or thousandths, a dime being the tenth part of a dollar, a cent a hundredth part of a dollar, a mille of the thousandth part of a dollar, and that all accounts in the public offices and all proceedings in the courts of the United States shall be kept and had in conformity to this regulation.

The same Congress passed an act the following year making certain foreign coins legal tender in the United States.

“Sec. 1. Be it enacted, . . . That from and after the first day of July next, foreign gold and silver coins shall pass current as money within the United States, and be a legal tender for the payment of all debts and demands, at the several and respective rates following, and not otherwise, viz.: . . .”

(The gold coins of Great Britain and Portugal at 100 cents for every 27 grains of weight; gold coins of France, Spain, and the dominions of Spain at 100 cents for every 27 $\frac{2}{5}$ grains; Spanish milled dollars at 100 cents each, the weight being not less than 17 pennyweights and 7 grains, and so for the parts of a dollar; crowns of France at 110 cents each, the weight being not less than 18 pennyweights and 17 grains, and so for the parts of a crown. But no foreign coin issued after January 1, 1792, shall be a tender until proclamation by the President that it has been found by assay at the Mint to be of the required standard.)

Sec. 2. Provided, always, and be it further en-

acted, That at the expiration of three years next ensuing the time when the coinage of gold and silver, agreeably to the act entitled 'An act establishing a mint, and regulating the coins of the United States,' shall commence at the mint of the United States (which time shall be announced by the proclamation of the President of the United States), all foreign gold coins and all foreign silver coins, except Spanish milled dollars and parts of such dollars, shall cease to be a legal tender, as aforesaid."

(Section 3 provides that, from the time when coining shall begin at the Mint, all foreign gold and silver coins, except Spanish milled dollars and parts thereof, received by the United States, shall be recoined at the Mint.)

(Section 4 repeals from July 1, 1793, section 56 of the collection act of 1790 fixing the rates at which foreign coins shall be received for duties.)

(Approved, February 9, 1793. 1 Statutes at Large 300.)¹⁰

It was necessary that foreign coins should still be allowed to circulate as legal tender, as such foreign coins constituted all the metal money then in circulation and the United States had not yet begun to coin money of its own. The American silver dollar was first coined in 1794, and the first American gold coins in 1795. Foreign coins continued to circulate as legal tender in the United States for over sixty years, acts regulating the value at which they were to be taken being passed in 1816, 1834, and 1843. This legal tender character was taken away

¹⁰ Russell's International Monetary Conferences.

from foreign coins by act of Feb. 21, 1857, the third section of which was as follows:

Sec. 3. And be it further enacted, That all former acts authorizing the currency of foreign gold or silver coins, and declaring the same a legal tender in payment for debts, are hereby repealed; but it shall be the duty of the director of the mint to cause assays to be made, from time to time, of such foreign coins as may be known to our commerce, to determine their average weight, fineness, and value, and to embrace in his annual report a statement of the results thereof."

The United States was at the outset nominally on a double basis of currency, but in reality upon a silver basis. The silver dollar was known as the unit, and the larger gold coins (no gold dollar was provided for) were to be of the value of so many dollars or units. Gold was also undervalued, a ratio of 15 to 1 being adopted, while the time ratio at this time was from $15\frac{1}{4}$ to 1 to $15\frac{1}{2}$ to 1. Gold coins, therefore, being relatively the more valuable, were driven out of the country.

Section 19. Currency History During the Nineteenth Century Prior to the Civil War.

The United States coins did not come into general use for more than half a century after their coinage was begun. During the early portion of the nineteenth century the currency in circulation in the United States was mainly composed of foreign bank-notes and inferior foreign coins of many descriptions. Accounts, in many portions of the country,

were even kept according to the English monetary system rather than the new American decimal system. The new American coins were so rapidly sent abroad that in 1806 the coinage of the silver dollar was superseded by President Madison by the following notice sent to the Director of the Mint by the Secretary of the State:

“Department of State, May 1, 1806.

“Sir:—In consequence of a representation from the Directors of the Bank of the United States that considerable purchases have been made of dollars coined at the mint for the purposes of exporting them, and it is probable further purchases will be made, the President directs that all silver to be coined at the mint shall be of small denominations so that the value of the largest pieces shall not exceed half a dollar.

—“James Madison.”

No more silver dollars were coined for thirty years. All of the silver coinage during this period was in the form of fractional silver, which at this time, however, were of the same proportional weight as the silver dollar. From this time on the issuance of bank-notes by American banks became very great, and such bank-notes in turn tended to drive out of circulation not only the American coins but even the most inferior foreign coins.

By 1834 the lack of metal currency in the country had become so marked that an attempt was made to remedy this state of affairs by taking steps to secure a supply of gold coins which might be kept in this country. Gold was beginning to be produced

in this country and the material for the new coins was thus at hand; in order to keep these coins in this country the ratio between gold and silver was changed, by the act of 1834, from 15 to 1, to 16 to 1, thus overvaluing gold, the ratio between the precious metals in the European countries varying from 15.5 to 1, to 15.85 to 1. The provisions of the act of 1834 were as follows:

“An Act concerning the gold coins of the United States, and for other purposes.

“Be it enacted, . . . That the gold coins of the United States shall contain the following quantities of metal; that is to say, each eagle shall contain two hundred and thirty-two grains of pure gold, and two hundred and fifty-eight grains of standard gold; each half-eagle, one hundred and sixteen grains of pure gold, and one hundred and twenty-nine grains of standard gold; each quarter-eagle shall contain fifty-eight grains of pure gold, and sixty-four and a half grains of standard gold; every such eagle shall be of the value of ten dollars; every such half-eagle shall be of the value of five dollars; and every such quarter-eagle shall be of the value of two dollars and fifty cents; and the said gold coins shall be receivable in all payments, when of full weight, according to their respective values; and when of less than full weight, at less values, proportioned to their respective actual weights.

Sec. 2. And be it further enacted, That all standard gold or silver deposited for coinage after the thirty-first of July next shall be paid for in coin under the direction of the Secretary of the Treasury, within five days from the making of such de-

posit, deducting from the amount of said deposit of gold and silver one-half of one per centum; Provided, That no deduction shall be made unless said advance be required by such depositor within forty days.

Sec. 3. And be it further enacted, That all gold coins of the United States, minted anterior to the thirty-first day of July next, shall be receivable in all payments at the rate of ninety-four and eight-tenths of a cent pennyweight."

(Approved, June 28, 1834. 4 Statutes at Large, 699.)

By the act of 1837 the weight of the pure gold in the gold dollar was slightly increased and the fineness reduced to 9/10 for purposes of convenience in coinage.

This act of 1834 left the United States in the anomalous position of having (leaving bank-notes out of consideration in the present discussion) a silver standard and a gold circulating currency. The act of 1792 had made the silver dollar the unit, and had merely provided that gold pieces of the "value of" so many silver dollars might be coined. From 1792 to 1834 the United States had both a silver standard and a silver circulating currency. The United States during this period was not on a bimetallic basis but upon a silver monometallic basis throughout. The act of 1834 recognized the fact of the silver standard by bringing about the change in ratio through a decrease in the weight of the gold coins, instead of by an increase in the weight of the silver dollars. As gold was overvalued, however, it rapidly drove out the silver currency, this extending even to the small silver pieces.

The general effect of this act is clearly set out by Mr. Russell in his work on "International Monetary Conferences."

"There was considerable boasting over the gold coins which soon made their appearance, and which were popularly dubbed 'Benton Mint-drops' or 'Jackson Yellow-boys'; it was natural to seek to make political capital of them before a people which, up to that time, had seldom seen an American coin. But the pleasant experience was all too brief. The flight of the larger silver pieces did not appear alarming so long as there were substitutes, but soon the old and worn fractional pieces followed, and the plain people, who so admired Jackson, found themselves greatly inconvenienced by a lack of change, which, rather than gold, was always the medium of their every-day transactions. Half-dollars, quarters, dimes, and half-dimes were turned out of the mints from 1834 to 1850 to an amount almost as large as the coinage of gold. A few silver dollars were struck—something that had not occurred at the mint for thirty years—but everything in the shape of silver was immediately exported. Matters became still worse when gold began to pour into the mint from the newly discovered mines of California. But for the use of small notes, in varying degrees of depreciation, the domestic trade and industry would have been hampered more than it was. In 1851 the law creating the silver three-cent piece, three-quarter fine, was passed, and more than a million dollars' worth were coined in three years in the effort to supply the deficiency. Standard silver coins rose to a premium of 5 per cent, and the total silver coinage

fell from \$2,558,580 in 1846 to only \$774,497 in 1851, and in 1852 more debased three-cent pieces were coined than all of the other denominations put together. They alone would circulate.”

To remedy these conditions, the currency act of 1853 was enacted, as follows:

“An Act amendatory of Existing Laws relative to the Half Dollar, Quarter Dollar, Dime and Half Dime.

“Be it enacted, . . . That from and after the first day of June, eighteen hundred and fifty-two (three), the weight of the half dollar or piece of fifty cents shall be one hundred and ninety-two grains, and the quarter dollar, dime, and half dime shall be, respectively, one-half, one-fifth, and one-tenth of the weight of said half dollar.

Sec. 2. And be it further enacted, That the silver coins issued in conformity with the above section shall be legal tenders in payment of debts for all sums not exceeding five dollars.

Sec. 3. And be it further enacted, That in order to procure bullion for the requisite coinage of the subdivisions of the dollar authorized by this act, the Treasurer of the Mint shall, with the approval of the Director, purchase such bullion with the bullion fund of the mint. He shall charge himself with the gain arising from the coinage of such bullion into coins of a nominal value exceeding the intrinsic value thereof, and shall be credited with the difference between such intrinsic value and the price paid for such bullion, and with the expense of distributing said coins as hereinafter provided. The balances to his credit, or the profit of said coinage, shall be, from

time to time, on a warrant of the Director of the Mint, transferred to the account of the Treasury of the United States.

Sec. 4. And be it further enacted, That such coins shall be paid out at the mint, in exchange for gold coins at par, in sums not less than one hundred dollars; and it shall be lawful, also, to transmit parcels of the same from time to time to the assistant treasurers, depositaries, and other officers of the United States, under general regulations, proposed by the Director of the Mint, and approved by the Secretary of the Treasury; Provided, however, That the amount coined into quarter dollars, dimes, and half dimes, shall be regulated by the Secretary of the Treasury.

Sec. 5. And be it further enacted, That no deposits for coinage into the half dollar, quarter dollar, dime, and half dime shall hereafter be received, other than those made by the Treasurer of the Mint, as herein authorized, and upon account of the United States."

(Section 6 provides that when gold or silver is deposited for coinage there shall be a charge to the depositor, in addition to the charge for refining or parting the metals, of one-half of one per centum, this provision not applying to silver coined into the subdivisions of the dollar.)

Sec. 7. And be it further enacted, That from time to time there shall be struck and coined at the Mint of the United States, and the branches thereof, conformably in all respects to law, and conformably in all respects to the standard of gold coins now es-

tablished by law, a coin of gold of the value of three dollars, or units." . . .

(Approved February 21, 1853. 10 Statutes at Large, 160.)⁸

A great part of the later financial arguments, misunderstandings and difficulties can be traced back to this act of 1853. Still more than in the case of the act of 1834 did this act do a certain thing, without pretending to do so; namely, put the United States upon a gold standard. This act reduced the weight of silver half-dollars from $206\frac{1}{4}$ to 192 grains and of the lesser silver coins proportionately, limited their legal tender capacity to \$5.00, and provided that they could only be issued on the government account.

The result of this law was to allow both gold and subsidiary silver coins to circulate. The silver subsidiary coins were overvalued when compared with the gold coins, and both were overvalued in comparison with the silver dollar. The result of this law was in practice to put the country on a gold basis, but on the face of the law the silver dollar was retained as the "unit" of value, and the law still permitted the "free and unlimited coinage" of silver dollars, which were legal tender to any amount. The price of silver prevented any being brought forward for coinage. It has been a much disputed question whether this law was passed with the intention of putting the country on a single gold basis. That some had this hope and expectation is certain.

⁸ The synopsis of omitted sections in this and the preceding act from Dunbar on Currency, Finance, and Banking.

“In introducing the bill which afterwards became the act, Representative Dunham, on behalf of the Committee on Ways and Means, said:

‘Another objection urged against the proposed change is that it gives us the standard of gold only. What advantage is to be gained by a standard of the two metals which is not as well, if not better, obtained by a gold standard I am not able to perceive, while there are very great advantages resulting from it, as the experience of every nation which has attempted it has proved. Indeed, it is utterly impossible that you should maintain a double standard. Gentlemen talk about a double standard of gold and silver as a thing that exists, and that we propose to change. We have had but a single standard for the last three or four years. That has been and is now gold. We propose to let it remain so, and to adapt silver to it and regulate it by it.’ ”

The majority of the members of Congress, however, were probably only concerned with effecting some arrangement by which subsidiary silver coins could be kept in the country. If no further legislation on this subject had been enacted, the fall in the price of silver would have changed the circulating medium of the United States from a gold to a silver basis in the seventies.

Section 20. The Civil War Period.

The secession of the majority of the southern members from Congress during the winter of 1860-61 left the control of the thirty-sixth Congress, during its last days, in the hands of the northern Repub-

licans, and steps were taken to meet the coming storm. The first measures adopted for this purpose were those providing for a large issue of treasury notes by the United States government. The first act for this latter purpose (approved December 17, 1860) was, in part, as follows:

“An Act to authorize the Issue of Treasury Notes, and for other purposes.

“Be it enacted, . . . That the President of (the) United (States) be hereby authorized to cause treasury notes, for such sum or sums as the exigencies of the public service may require, but not to exceed at any time the amount of ten millions of dollars, and of denominations not less than fifty dollars for any such note, to be prepared, signed, and issued in the manner hereinafter provided.

Sec. 2. And be it further enacted, That such treasury notes shall be paid and redeemed by the United States at the Treasury thereof after the expiration of one year from the date of issue of such notes; from which dates, until they shall be respectively paid and redeemed, they shall bear such rate of interest as shall be expressed in such notes, which rate of interest shall be six per centum per annum; Provided, That, after the maturity of any of said notes, interest thereon shall cease at the expiration of sixty days' notice of readiness to redeem and pay the same, which may at any time or times be given by the Secretary of the Treasury in one or more newspapers at the seat of government. The redemption and payment of said notes, herein provided, shall be made to the lawful holders thereof respectively upon presentment at the Treasury, and shall

include the principal of each note and the interest which shall be due thereon. And for the payment and redemption of such notes at the time and times therein specified the faith of the United States is hereby solemnly pledged.

Sec. 4. And be it further enacted, That the Secretary of the Treasury is hereby authorized, with the approbation of the President, to cause such portion of said treasury notes as may be deemed expedient to be issued by the Treasurer in payment of warrants in favor of public creditors, or other persons lawfully entitled to payment, who may choose to receive such notes in payment at par; and the Secretary of the Treasury is hereby authorized, with the approbation of the President, to issue the notes hereby authorized to be issued, at such rate of interest as may be offered by the lowest responsible bidder or bidders who may agree to take the said notes at par after public advertisement of not less than ten days in such papers as the President may direct, the said advertisement to propose to issue such notes at par to those who may offer to take the same at the lowest rate of interest. But in deciding upon those bids no fraction shall be considered which may be less than one-fourth per centum per annum.

And be it further enacted, That, in place of such treasury notes as may have been paid and redeemed, other treasury notes to the same amount may be issued; Provided, That the aggregate sum outstanding under the authority of this act shall at no time exceed the sum of ten millions of dollars; And provided further, That the power to issue and

reissue treasury notes conferred by this act shall cease and determine on the first day of January, in the year eighteen hundred and sixty-three."

The issuance of paper money continued to be popular with Congress as a means of meeting a portion of the expenses of the war, and was resorted to on a much greater scale by the thirty-seventh Congress. The Act of July 17, 1861, was, in part, as follows:

"An Act to authorize a National Loan, and for other Purposes.

"Be it enacted, . . . That the Secretary of the Treasury be, and he is hereby, authorized to borrow on the credit of the United States, within twelve months from the passage of this act, a sum not exceeding two hundred and fifty millions of dollars, or so much thereof as he may deem necessary for the public service, for which he is authorized to issue coupon bonds, or registered bonds, or treasury notes, in such proportions of each as he may deem advisable; the bonds to bear interest not exceeding seven per centum per annum, payable semi-annually, irredeemable for twenty years, and after that period redeemable at the pleasure of the United States; and the treasury notes to be of any denomination fixed by the Secretary of the Treasury, not less than fifty dollars, and to be payable three years after date, with interest at the rate of seven and three-tenths per centum per annum, payable semi-annually. And the Secretary of the Treasury may also issue in exchange for coin, and as part of the above loan, or may pay for salaries or other dues from the United States, treasury notes of a less denomination than

fifty dollars, not bearing interest, but payable on demand by the Assistant Treasurers of the United States at Philadelphia, New York, or Boston, or treasury notes bearing interest at the rate of three and sixty-five-hundredths per centum, payable in one year from date, and exchangeable at any time for treasury notes for fifty dollars and upwards, issuable under the authority of this act, and bearing interest as specified above; Provided, That no exchange of such notes in any less amount than one hundred dollars shall be made at any time; And provided further, That no treasury notes shall be issued of a less denomination than ten dollars, and that the whole amount of treasury notes, not bearing interest, issued under the authority of this act, shall not exceed fifty millions of dollars.

Sec. 6. And be it further enacted, That whenever any treasury notes of a denomination less than fifty dollars, authorized to be issued by this act, shall have been redeemed, the Secretary of the Treasury may reissue the same, or may cancel them and issue new notes to an equal amount; Provided, That the aggregate amounts of bonds and treasury notes issued under the foregoing provisions of this act shall never exceed the full amount authorized by the first section of this act; and the power to issue or reissue such notes shall cease and determine after the thirty-first of December, eighteen hundred and sixty-two.

Sec. 7. And be it further enacted, That the Secretary of the Treasury is hereby authorized, whenever he shall deem it expedient, to issue, in exchange for coin, or in payment for public dues, treasury

notes of any of the denominations hereinbefore specified, bearing interest not exceeding six per centum per annum, and payable at any time not exceeding twelve months from date, provided that the amount of notes so issued or paid shall at no time exceed twenty millions of dollars.

Sec. 9. And be it further enacted, That the faith of the United States is hereby solemnly pledged for the payment of the interest and redemption of the principal of the loan authorized by this act."

The Act of August 5, 1861, in addition to authorizing the Secretary of the Treasury to issue twenty-year six per cent bonds to take up such treasury notes as might be presented for this purpose by their holders, was, in part, as follows:

"Sec. 5. And be it further enacted, That the treasury notes authorized by the act to which this is supplementary, of a less denomination than fifty dollars, payable on demand without interest, and not exceeding in amount the sum of fifty millions of dollars, shall be receivable in payment of public dues.

Sec. 6. And be it further enacted, That the provisions of the act entitled 'An Act to provide for the better organization of the Treasury, and for the collection, safe-keeping, transfer, and disbursements of the public revenue,' passed August sixth, eighteen hundred and forty-six, be and the same are hereby suspended, so far as to allow the Secretary of the Treasury to deposit any of the moneys obtained on any of the loans now authorized by law, to the credit of the Treasurer of the United States, in such solvent specie-paying banks as he may select; and the same

moneys, so deposited, may be withdrawn from such deposit for deposit with the regular depositaries, or for the payment of public dues, or paid in redemption of the notes authorized to be issued under this act, or the act to which this is supplementary, payable on demand, as may seem expedient to, or be directed by, the Secretary of the Treasury.

Sec. 7. And be it further enacted, That the Secretary of the Treasury may sell or negotiate, for any portion of the loan provided for in the act to which this is supplementary, bonds payable not more than twenty years from date, and bearing interest not exceeding six per centum per annum, payable semi-annually, at any rate not less than the equivalent of par, for the bonds bearing seven per centum interest, authorized by said act."

(Approved, August 5, 1861. 12 Statutes at Large, 313.)

It is to be noticed that the fifty millions of treasury notes which by Section 5 of this act were made receivable in payment of public dues kept their parity with gold throughout the Civil War, even when the remaining treasury notes were at a ratio of worse than two to one.

Up to this period neither the people nor the government had appreciated the magnitude of the war in general in which the United States was engaged, and even when it began to be realized that the contest was likely to be one of years rather than of months, the government was found to be without any comprehensive plan for its financial management.

The situation at this time is well set forth by

Professor Sumner in his "History of American Currency."

"Such was the situation when Congress met in December, 1861. Never did any man have such an opportunity to win immortality as a financier as was now offered to Mr. Chase. The situation had at this moment few difficulties. The people were less sanguine that the war would be short than they had been in the previous summer. They had contracted their expenses to the lowest point, and production was reduced to the necessary supply for consumption. They held their disengaged capital ready to the demand of the government, if it should act with promptness and decision, and support its own credit. Nor was it the capital of the country alone which was available. War taxes must and always do trench upon income. It was the active productive power of the nation, which might be turned to war making, which was the great resource. The nation was not only willing to be taxed, but itself understood generally that only when it was being taxed could it give full credit to its own paper promises. The Congress, moreover, was ready to give to the Secretary all he asked. If he had been the minister of the Czar he could not have disposed more absolutely of the national resources. All that was needed was a firm, clear, bold policy, showing that he understood himself and the situation.

The Treasury report presented no such policy. It did not take the lead at all. It discussed government paper disparagingly, suggested a national banking system tentatively. It only showed that the nation was drifting into financial embarrass-

ments for want of a policy. The real financial question of the day was: whether we should carry on the war on specie currency, low prices, and small imports, or on paper issues, high prices, and heavy imports. The alternative was not understood because no one distinctly contemplated the latter course, but it was sure to be the result of drifting under no policy.

The complications with England about the Trent case came upon the reaction of disappointment at the message and report, and in December gold began to be exported. On the 17th of that month the New York banks stoutly resolved that suspension was unnecessary, but the drain upon their gold went on as follows:

December	7.....	\$42,300,000
"	14.....	39,400,000
"	21.....	36,800,000
"	28.....	29,300,000
January	4.....	23,900,000

From this time it began to increase again, and was \$30,000,000 on March 8.

In the last days of December, 1861, all the banks suspended. This they did without any earnest attempts to avoid it, and certainly without any necessity. Instead of regarding a suspension as a calamity to be submitted to only after years of war, when the national resources should be actually exhausted (as the suspension of the Bank of England proves that it is), many looked upon it as the natural preparation for war."

The currency of the country now went completely on a paper money basis, to remain there until after the passage of the act of 1875 for the resumption of specie payments.

In the early part of 1862 new acts were passed for the issuance of additional treasury notes, and the premium on gold constantly rose as its exportation increased. The fall in the value of the treasury notes may be mainly traced to two causes: first, the large amounts of such notes which were issued, and second, the fact that the United States government itself discredited them by refusing to accept them for custom duties. At the close of the war an attempt was made to strengthen the public credit by reducing the amount of the outstanding treasury notes, or "greenbacks," as they were popularly called. By the Act of April 12, 1866, the Secretary of the Treasury was authorized to retire ten million dollars' worth of treasury notes within six months from the passage of the act, and four million dollars' worth additional each month thereafter. Within two years the amount of treasury notes had been reduced by about ninety-five million dollars, when this power to retire such notes was taken from the Secretary of the Treasury by Act of February 4, 1868. It must be added here that twenty-six million dollars' worth that had not been actually destroyed were reissued after the panic of 1873.

The question as to whether Congress has the power to borrow money indirectly by making paper money issued by the United States legal tender has proved one of the most difficult ones presented to the courts of the United States.

This point was one left open by the framers of our Constitution. The first draft of the Constitution (as reported by the Committee of Detail August 6, 1878) contained among the powers granted to Congress the power . . . "to borrow money and emit bills on the credit of the United States." Ten days later the convention struck out the words "and emit bills" by a vote of nine States to two; but did not expressly prohibit to the United States Government the power to emit such bills as they had prohibited this power to the State Government. The matter was thus left in such a position that the United States was neither given or denied the right to emit bills of Government, or to make such bills of credit, if issued, legal tender. The whole question was left open to be settled by the course of events.

The subject was finally brought up for settlement by the laws passed during the Civil war period by the United States Government making the paper currency issued by the United States a legal tender in payment of debts, including debts due at the time of the passage of the law. In the earlier cases which came before the Supreme Court tenders had been made in paper currency for debts which, according to the terms of their contracts, were payable in gold or silver coin or "in specie."

In these cases it was held that the tenders were not sufficient, as the contracts expressly stated in what kind of money payment should be made. Mr. Justice Miller dissented from all these opinions, holding that it was the intention of Congress to make the notes of the United States a legal tender for all pri-

vate debts, without regard to the intention of the parties to the contract.

The constitutionality of these acts with regard to general debts was passed upon in the cases of *Hepburn vs. Griswold*; *Knox vs. Lee and Parker vs. Davis*, commonly referred to as the *Legal Tender Cases*; and in *Julliard vs. Greenman*.

In the case of *Hepburn vs. Griswold* the contract on which the debt was due antedated the passage of the act making the paper currency a legal tender in payment of debts. The decision in this case was against the constitutionality of this act. Mr. Chief Justice Chase, who delivered the opinion of the court, took as the rule for determining whether an act of Congress could be supported as an exercise of implied power the statement laid down by Chief Justice Marshall in *McCulloch vs. the State of Maryland*, "Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited but consistent with the spirit and letter of the Constitution, are constitutional." Chief Justice Chase then proceeded to argue for a distinction between those acts which were "appropriate" for carrying a granted power into execution and those which might in some slight degree promote an end within the scope of a general power. To include the latter within the implied power of Congress would, he argued, be dangerous.

"It would convert the Government which the people ordained as a government of limited powers into a government of unlimited powers. It would con-

fuse the boundaries which separate the Executive and Judicial from the Legislative authority. It would obliterate every criterion which this Court, speaking through the venerated Chief Justice in the case already cited, established for the determination of the question whether legislative acts are constitutional or unconstitutional. We are unable to persuade ourselves that an expedient of this sort is an appropriate and plainly adapted means for the execution of the power to declare and carry on war. If it adds nothing to the utility of the notes it cannot be upheld as a means to end in furtherance of which the notes are issued. Nor can it, in our judgment, be upheld as such if, while facilitating in some degree the circulation of the notes, it debases and injures the currency in its proper use to a much greater degree.

But there is another view which seems to us decisive to whatever express power the supposed implied power in question may be referred. In the rule stated by Chief Justice Marshall the words appropriate, plainly adapted, really calculated, are qualified by the limitations that the means must not be prohibited but consistent with the letter and spirit of the Constitution. Nothing so prohibited or inconsistent can be regarded as appropriate, or plainly adapted, or really calculated means to an end.

Let us inquire then, first, whether making bills of credit a legal tender to the extent indicated is consistent with the spirit of the Constitution. Among the great cardinal principles of that instrument no one is more conspicuous or more venerable than the establishment of justice. And what was intended by

the establishment of justice in the minds of the people who ordained it is, happily, not a matter of dispute. It is not left to inference nor conjecture, especially in its relations to contracts. It is then argued that, although there is no express prohibition to the United States as there is to the States to pass laws impairing the obligations of contracts, still by the general force and tenor of the Constitution they are prohibited from passing any such laws except such as only impair them incidentally. The Legal Tender Act is held to impair the obligation of contracts and also to be in violation of the Fifth Amendment, which provides that 'No person shall be deprived of life, liberty or property without due process of law, nor shall private property be taken for public use without just compensation.' "

Mr. Justice Miller delivered a dissenting opinion, in which Justices Swayne and Davis concurred.

At the time of the argument and decision in *Hepburn vs. Griswold* there were two vacancies in the Supreme Court. These two vacancies were filled on February 7, 1870, the same day upon which the decision of the Court in *Hepburn vs. Griswold* was rendered. This same question as to the constitutionality of the Legal Tender Act came up again before the Supreme Court, with its increased membership, the following year in the cases of *Knox vs. Lee* and *Parker vs. Davis*.

The result in these cases was a reversal of the decision in *Hepburn vs. Griswold* and a decision in favor of the constitutionality of the Legal Tender Acts, such decisions being based mainly on the

ground of expediency and public necessity, and upheld as a proper and necessary war measure. Mr. Justice Strong delivered the opinion of the Court, which was in part as follows: "The controlling questions in these cases are the following: 'Are the acts of Congress known as the Legal Tender Acts constitutional when applied to contracts made before their passage? Are they valid as applicable to debts contracted since their enactment?'

These questions have been elaborately argued and have received from the Court that consideration which their great importance demands. It would be difficult to overestimate the consequences which must follow our decision. They will affect the entire business of the country and take hold of the possible continued existence of the Government. If it be held by this Court that Congress has no constitutional power under any circumstances, or in any emergency, to make treasury notes a legal tender for the payment of all debts (a power confessedly possessed by every independent sovereignty other than the United States), the Government is without the means of self-preservation, which all must admit may in certain contingencies become indispensable even if they were not when the acts of Congress not called in question were enacted. It is also clear that if we hold the acts involved ~~as~~ applicable to debts incurred, or transactions which have taken place since their enactment, our decisions **must** cause, throughout the country, great business derangement, widespread distress and the rankest injustice. The debts which have been contracted since February 25, 1862, consti-

tute, doubtless, by far the greatest portion of the existing indebtedness of the country. They have been contracted in view of the acts of Congress declaring treasury notes a legal tender and in reliance upon that declaration. Men have bought and sold, borrowed and lent and assumed every variety of obligations contemplating that payment might be made with such notes. Indeed, legal tender treasury notes have become the universal measures of value. If now by our decision it be established that these debts and obligations can be discharged only by gold coin; if, contrary to the expectation of all parties to these contracts, legal tender notes are rendered unavailable, the Government has become an instrument of the grossest injustice; all debtors loaded with an obligation it was never contemplated they should assume, a large percentage is added to every debt, and such must become the demand for gold to satisfy contracts that ruinous sacrifices, general distress and bankruptcy may be expected. These consequences are too obvious to admit of question. And there is no well-founded distinction to be made between the constitutional validity of an act of Congress declaring treasury notes a legal tender for the payment of debts contracted after passage and that of an act making them a legal tender for the discharge of all debts, as well as those incurred before as those after its enactment. There may be a difference in the effects produced by the acts and the hardship of this operation, but in both cases the fundamental question, that which tests the validity of the legislation, is, Can Congress constitutionally give to treasury

notes the character and quality of money? Can such notes be constituted a legitimate circulating medium having a defined legal value? If they can, then such notes must be available to fulfill all contracts (not expressly excepted) solvable in money without reference to the time when the contract was made.

The consequences of what we have spoken, serious as they are, must be accepted if there is a clear incompatibility between the Constitution and the Legal Tender Acts. But we are unwilling to precipitate them upon the country unless such an incompatibility plainly appears.

And it is of importance to observe that Congress has often exercised without question powers that are not expressly given nor ancillary to any single enumerated power. Powers thus exercised are what are called by Judge Story, in his commentaries on the Constitution, resulting powers arising from the aggregate powers of the Government. He instances the right to sue and make contracts; many others might be given. The oath required by law from the officers of the Government is one. So is building a capitol or a presidential mansion, and so also is the penal code.

We are not aware of anything else which has been advanced in support of the proposition that the Legal Tender Acts were forbidden by either the letter or the spirit of the Constitution. If, therefore, they were what we have endeavored to show, appropriate means for legitimate ends, they were not transgressive of the authority vested in Congress.

But without extending our remarks further, it will be seen that we hold the acts of Congress con-

stitutional as applied to contracts made either before or after their passage."

In *Julliard vs. Greenman*, the right of Congress to make paper currency a legal tender was again upheld. The decision in this case, however, was more decided and is placed on much broader ground; there is no attempt to excuse the exercise of this power as a war measure or on the ground of expediency; the right is asserted to rest in Congress positively and at all times. The concluding paragraphs in this decision are as follows:

"Congress as the legislature of a sovereign nation, being expressly empowered by the Constitution to 'lay and collect taxes, to pay the debts and provide for the common defense and general welfare of the United States,' to 'borrow money on the credit of the United States,' and 'to coin money and regulate the value thereof and of foreign coin,' and being clearly authorized as incidental to the exercise of those great powers, to emit bills of credit, to charter national banks, and to provide a national currency for the whole people, in the form of coin, treasury notes and national bank bills; and the power to make notes of the Government a legal tender payment of private debts being one of the powers belonging to the sovereignty in other civilized nations, and not expressly withheld from Congress by the Constitution; we are irresistibly impelled to the conclusion that the impressing upon the treasury notes of the United States the quality of being a legal tender in payment of private debts is an appropriate means, conductive and plainly adapted to the execution of the un-

doubted powers of Congress, consistent with the letter and spirit of the Constitution, and therefore, within the meaning of that instrument, necessary and proper for carrying into execution the powers vested by this Constitution in the Government of the United States.

Such being our conclusion in matter of law, the question whether at any particular time, in war or in peace, the exigency is such, by reason of unusual and pressing demands on the resources of the Government, or of the inadequacy of the supply of gold and silver coin to furnish the currency needed for the use of the Government and of the people, that it is, as matter of fact, wise and expedient to resort to this means, is a political question, to be determined by Congress, when the question to be afterwards passed upon by the Courts. To quote once more from the judgment in *McCulloch vs. Maryland*: 'Where the law is not prohibited, and is really calculated to effect any one of the objects entrusted to the Government, to undertake here, to inquire into the degree of its necessity would be to pass the line which circumscribes the judicial department, and to tread on legislative ground.' 4 Wheat. 423.

It follows that the Act of May 31, 1878, c. 146, is constitutional and valid; and that the Circuit Court rightly held that in treasury notes reissued and kept in circulation, under that Act, tender of lawful money in payment of the defendant's debt was a dent to the plaintiff."

This question is noteworthy as being probably the only question which the Supreme Court has decided three different ways.

Before the close of the Civil war, the treasury notes had so depreciated in value as to drive out even the overvalued fractional silver coins. To meet this condition it became necessary to issue fractional treasury notes.

In 1869 was passed what was known as the "Credit Strengthening Act," whose provisions were partly as follows:

"Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That, in order to remove any doubt as to the purpose of the government to discharge all just obligations to the public creditors and to settle conflicting questions and interpretations of the laws by virtue of which such obligations have been contracted, it is hereby provided and declared that the faith of the United States is solemnly pledged to the payment in coin or its equivalent of all the obligations of the United States, not bearing interest, known as United States notes, and of all the interest-bearing obligations of the United States except in cases where the law authorizing the issue of any such obligation has expressly provided that the same may be paid in lawful money or other currency than gold and silver."

The development, during the war period, of the system of national bank notes will be considered in Chapter VII on the "History of American Banking."

During all this period the mints were open to the free coinage of both gold and silver, but what small amount of these metals were coined were immediately driven out of circulation by the existing conditions.

Section 21. The Period of the Silver Controversy.

The central figure in the currency and financial history of the United States, during the period beginning in 1873 and extending through the remainder of the nineteenth century was the bitter contest on the subject of the free coinage of silver.

As has been seen in this chapter the United States had legally been upon a silver standard continuously from 1789 to 1873, but that practically it had been upon a silver standard from 1789 to 1834, upon a gold standard from 1834 to 1862, and upon a paper standard from 1862 to 1873. As the time approached when it would be possible for the United States to resume specie payments the question of the standard which should be adopted became of the greatest importance. If any changes were to be made in the coinage of the country it could be done with the least friction at a time when no metallic money, of either metal, was actually in circulation. Again the question of the standard to be adopted was of very vital importance to the holders of the various obligations of the United States. The value of a bond calling for the payment of one thousand dollars by the United States manifestly depended very largely upon what meaning the United States should give to the term "dollar."

The attempt to demonetize silver may be said to have begun on January 6, 1868, when Senator John Sherman introduced into Congress a bill abolishing the silver dollar as a coin of the United States and at the same time reducing the weight of the gold

dollar. This bill was bitterly opposed and never came to a vote. In the Forty-first Congress what was known as the "Mint Bill," which dropped the silver dollar, was passed by the Senate but was not acted upon by the House.

Silver was finally demonetized by the Forty-second Congress,—the bill which accomplished this purpose was introduced into the House of Representatives, was managed by Mr. Samuel Hooper of Massachusetts and in its original form propounded a 384-grain silver dollar, which was to be legal tender only to the amount of \$5.00. In the Senate, where the bill was under the control of John Sherman, the 384-grain silver dollar was dropped and the 420-grain silver trade dollar substituted. The bill passed both houses by large majorities, and with little discussion, and was signed by President Grant on February 12, 1873. By this act the United States was placed definitely on a gold standard.

The development and evolution of this bill, both before and during the Forty-second Congress, is shown by the following chart, taken from the "Encyclopedia of Social Reform":

THE EVOLUTION

CHART SHOWING FORMS ASSUMED BY IMPORTANT SECTIONS

NUMBERS AND FORMS.	1. GOLD SECTION.		
	No. OF SEC.	EFFECT.	
		AMOUNT OF VALUE PROVIDED.	LEGAL TENDER OF GOLD COINS.
1. "Rough draft" first sent to experts.....	10	Gold dollar of 25.8 grains.	All gold coin a legal tender in all payments.
2. Bill submitted to Senator Sherman, April 25, 1870, by Secretary of Treasury, Step 1.....	14	Gold dollar of 25.8 grains.	All gold coin a legal tender in all payments.
3. Bill introduced into Senate by Senator Sher- man, April 28, 1870, Step II, S. 859.....	14	Gold dollar of 25.8 grains.	All gold coin a legal tender in all payments.
4. Bill submitted to Speaker Blaine, June 25, 1870, by Secretary of Treasury, Step VI, S. 859...	14	Gold dollar of 25.8 grains.	All gold coin a legal tender in all payments.
5. Chairman Kelley's "Substitute" of Feb. 25, 1871, Step XIV, S. 859.....	14	Gold dollar of 25.8 grains.	All gold coin a legal tender in all payments.
6. Bill newly introduced by Chairman Kelly, March 9, 1871, Step XV, H. R. 5.....	14	These sections are cut away from the only extant copy of the bill.	
7. Bill reported by Chairman (pro tem) Hooper, Feb. 9, 1872, Step XVIII, H. R. 1427.....	14	Gold dollar of 25.8 grains.	All gold coin a full legal tender in all payments.
8. Chairman (pro tem) Hooper's "Substitute" of May 27, 1872, Step XXI, H. R. 1427.....	14	Gold dollar of 25.8 grains.	All gold coin a full legal tender in all payments.
9. Bill read (twice by title) in Senate, May 29, 1872, Step XXII, H. R. 2984.....	14	Gold dollar of 25.8 grains.	All gold coin a full legal tender in all payments.
10. Bill reported in Senate with amendments, Dec. 16, 1872, Step XXIII, H. R. 2984.....	14	Gold dollar of 25.8 grains.	All gold coin a full legal tender in all payments.
11. Bill after Amendment in Senate (?) Jan. 17, 1873, Step XXV, H. R. 34.....	14	Gold dollar of 25.8 grains.	All gold coin a full legal tender in all payments.
12. Bill approved by President Grant, Feb. 12, 1873, Step XXXVIII, H. R. 2984.....	14	Gold dollar of 25.8 grains.	All gold coin a full legal tender in all payments.

OF THE MINT BILL.

OF THE MINT BILL AT VARIOUS STAGES OF ITS PROGRESS.

2. SILVER SECTION.				3. PROHIBITORY SECTION.	
No. OF SEC.	EFFECT.			No. OF SEC.	EFFECT.
	SILVER DOLLAR.		LEGAL TENDER OF SILVER COINS.		
11	412½ grain dollar dropt.	384 grain dollar introduced.	All silver coins named in bill a legal tender in payment of debts for all sums not exceeding \$5. except duties on imports.	Wanting	
15	412½ grain dollar dropt.	No silver dollar whatever.	All silver coins named in bill a legal tender for sums less than \$5.	18	No coins to be minted other than those named.
15	412½ grain dollar dropt.	No silver dollar whatever.	All silver coins named in bill ■ legal tender for sums less than \$5.	18	No coins to be minted other than those named.
15	412½ grain dollar dropt.	No silver dollar whatever.	All silver coins named in bill ■ legal tender for sums less than \$5.	11	No coins to be minted other than those named.
15	412½ grain dollar dropt.	No silver dollar whatever.	All silver coins named in bill ■ legal tender for sums not exceeding \$5.	18	No coins to be minted other than those named.
15	412½ grain dollar dropt.	No silver dollar whatever.	All silver coins named in bill a legal tender for sums not exceeding \$5.	18	No coins to be minted other than those named.
16	412½ grain dollar dropt.	384 grain dollar re-introduced.	All silver coins named in bill a legal tender for sums not exceeding \$5.	18	No coins to be minted other than those named.
16	412½ grain dollar dropt.	384 grain dollar remains.	All silver coins named in bill a legal tender for sums not exceeding \$5.	18	No coins to be minted other than those named.
16	412½ grain dollar dropt.	384 grain dollar remains.	All silver coins named in bill a legal tender for sums not exceeding \$5.	18	No coins to be minted other than those named.
16	412½ grain dollar dropt.	384 grain dollar remains.	All silver coins named in bill a legal tender for sums not exceeding \$5.	17	No coins to be minted other than those named.
(16) 15	412½ grain dollar dropt.	420 grain sub- stituted for 384 grain dollar.	All silver coins named in bill a legal tender for sums not exceeding \$5.	(18) 17	No coins to be minted other than those named.
15		420 grain dollar remains.	All silver coins named in bill ■ legal tender for sums not exceeding \$5.	17	No coins to be minted other than those named.

The text of the principal sections of this important currency bill are as follows:

“An Act revising and amending the Laws relative to the Mints, Assay-offices, and Coinage of the United States.

“Sec. 13. That the standard for both gold and silver coins of the United States shall be such that of one thousand parts by weight nine hundred shall be of pure metal and one hundred of alloy; and the alloy of the silver coins shall be of copper, and the alloy of gold coin shall be of copper, or of copper and silver; but the silver shall in no case exceed one-tenth of the whole alloy.

Sec. 14. That the gold coins of the United States shall be a one-dollar piece, which, at the standard weight of twenty-five and eight-tenths grains, shall be the unit of value; a quarter-eagle, or two-and-a-half-dollar piece; and three-dollar piece; a half-eagle, or five-dollar piece; and eagle, or ten-dollar piece; and a double-eagle, or twenty-dollar piece. And the standard weight of the gold dollar shall be twenty-five and eight-tenths grains; of the quarter-eagle, or two-and-a-half dollar piece, sixty-four and a half grains; of the three-dollar piece, seventy-seven and four-tenths grains; of the half-eagle, or five-dollar piece, one hundred and twenty-nine grains; of the eagle, or ten-dollar piece, two hundred and fifty-eight grains; of the double-eagle, or twenty-dollar piece, five hundred and sixteen grains; which coins shall be a legal tender in all payments at their nominal value when not below the standard weight and limit of tolerance provided in this act for the single piece, and, when reduced in weight, below

said standard and tolerance, shall be a legal tender at valuation in proportion to their actual weight; and any gold coin of the United States, if reduced in weight by natural abrasion not more than one-half of one per centum below the standard weight prescribed by law, after a circulation of twenty years, ~~as~~ shown by its date of coinage, and at a ratable proportion for any period less than twenty years, shall be received at their nominal value by the United States Treasury and its offices, under such regulations as the Secretary of the Treasury may prescribe for the protection of the government against fraudulent abrasion or other practices; and any gold coins in the treasury of the United States reduced in weight below this limit of abrasion shall be recoined.

Sec. 15. That the silver coins of the United States shall be a trade-dollar, a half-dollar or fifty-cent piece, a quarter-dollar or twenty-five-cent piece, a dime or ten-cent piece; and the weight of the trade-dollar shall be four hundred and twenty grains troy; the weight of the half-dollar shall be twelve grains (grammes) and one-half of a gram (gramme); the quarter-dollar and the dime shall be respectively one-half and one-fifth of the weight of the said half-dollar; and said coins shall be a legal tender at their nominal value for any amount not exceeding five dollars in any one payment.

Sec. 16. That the minor coins of the United States shall be a five-cent piece, a three-cent piece, and a one-cent piece, and the alloy for the five and three-cent pieces shall be of copper and nickel, to be composed of three-fourths copper and one-fourth nickel, and the alloy of the one-cent piece shall be

ninety-five per centum of copper and five per centum of tin and zinc, in such proportions as shall be determined by the director of the mint. The weight of the piece of five cents shall be seventy-seven and sixteen-hundredths grains, troy; of the three-cent piece, thirty grains; and of the one-cent piece, forty-eight grains; which coins shall be a legal tender, at their nominal value, for any amount not exceeding twenty-five cents in any one payment.

Sec. 17. That no coins, either of gold, silver, or minor coinage, shall hereafter be issued from the mint other than those of the denominations, standards, and weights herein set forth.

Sec. 21. That any owner of silver bullion may deposit same at any mint, to be formed into bars, or into dollars of the weight of four hundred and twenty grains troy, designated in this act as trade-dollars, and no deposit of silver for other coinage shall be received; but silver bullion contained in gold deposits, and separated therefrom, may be paid for in silver coin, at such valuation as may be, from time to time, established by the director of the mint.

Sec. 25. That the charge for converting standard gold bullion into coin shall be one-fifth of one per centum; and the charges for converting standard silver into trade-dollars, for melting and refining when bullion is below standard, for toughening when metals are contained in it which render it unfit for coinage, for copper used for alloy when the bullion is above standard, for separating the gold and silver when these metals exist together in the bullion, and for the preparation of bars, shall be fixed, from time to time, by the director, with the concurrence of the

Secretary of the Treasury, so as to equal but not exceed, in their judgment, the actual average cost to each mint and assay-office of the material, labor, wastage, and use of machinery employed in each of the cases aforementioned."

Not only the wisdom of this act, but also the methods used in securing its passage, have been the subject of much bitter controversy. It was for years strongly claimed by its opponents, and as strongly denied by its supporters, that the passage of the bill through Congress was secured by trickery, that it was not appreciated at the time the bill was passed, either by the members of Congress or by the public, that the bill demonetized silver, and that if this had been known, that the bill would never have been passed. The case against the bill is thus summed up in a recent work:

"That congressmen actually did not know that the bill they were passing demonetized the standard silver dollar is shown by the following statements: Senator Conkling, Congressional Record, March 30, 1876, p. 2062, column 2; Senators Thurman and Allison, ditto, p. 1064, column 1, and p. 1058, column 1; Senators Voorhees and Blaine, ditto, p. 1063, column 2; Senator Beck, ditto, p. 260, column 2, and Congressional Record for January 10, 1878, p. 261, column 2; Senator Hereford, Congressional Record for February 13, 1878, p. 989; Senator Howe and Representative Garfield, Congressional Record, January 26, 1878, p. 584, column 2; Representative Holman, Congressional Record, p. 4561, and Appendix, p. 193, column 1; Representative Burchard, Congressional Record, July 13, 1876, p. 4560, column 1; Represen-

tative Kelley, Congressional Record, Vol. II, part 2, Forty-fifth Congress, second session, p. 1605, column 1, and Congressional Record, p. 1231, column 2.

It is clear, however, that Senator Sherman and Representative Hooper were well aware of the fact that the bill demonetized the standard silver dollar. That the general public did not, for some time after passage of the bill, so understand, is shown by testimonials on both sides of the subsequent controversy, including those of Murat Halstead, the Chicago Tribune, Hon. Thomas B. Reed, President F. A. Walker, Hon. W. S. Groesbeck and J. K. Upton. That President Grant, when signing the bill, was ignorant of its effect upon our silver coinage is shown by his celebrated 'Cowdry letter.' Senator Sherman, in his speech delivered August 30, 1893, virtually admitted as much, saying: 'It is sometimes said that General Grant did not know of the demonetization of silver. Well, what of it? General Grant was not a financier, nor a metallist, nor a monetary expert.'"⁹

On the other hand, it is argued that a bill to demonetize silver had been almost constantly before Congress for five years, that the subject had received some notice and discussion in various papers, and that the demonetization feature had been referred to by four members of the House of Representatives, Messrs. Hooper, Stoughton, Potter and Kelley, in the debate in the House on the bill on April 9, 1872.

One very peculiar fact relative to this controversy was brought out in the discussion of the International Monetary Conference of 1878, namely, that the

⁹ Encyclopedia of Social Reform.

European financiers had watched the passage of the act of 1873 much more clearly than the Americans themselves.

“The American delegates, judging from Groesbeck’s remarks, assumed that the Europeans possessed a limited knowledge of the course of monetary events in the United States following 1867; and they may even have come to believe that silver was dropped in 1873 through an ‘inadvertence.’ As a rule, the political conditions and events of this country are little understood abroad. But the men who listened to Groesbeck—it may be humiliating to confess, but it is true,—had watched monetary changes in America more closely, or, at least, more intelligently, than the Americans themselves. They knew, in 1873, that silver was dropped by law in this country at that time, had written about it, some of them had even advised members of Congress against the step, and they had naturally assumed that Congress knew exactly what it was doing, and acted in furtherance of the policy advocated by the United States and adopted at the conference of 1867. They had read the reports of the Treasury and Mint officials from 1870 to 1872, calling attention to the proposed discontinuance of the silver dollar, and they could not understand how the members of Congress, to whom the reports were made, had failed to read and consider them. As soon as Groesbeck sat down, therefore, Goschen expressed a desire to know what significance was to be attached to the word ‘inadvertence.’ Groesbeck replied that the American people had never been asked whether they wished silver to remain a legal tender, that no newspaper

had called attention to it, that no commercial body had considered or recommended it, and that many members of Congress had since confessed that at the time the decision was made they knew not what they were doing.

This brought Herr Herzog to his feet with copies of American documents from 1870 to 1873, specifically and plainly calling the attention of Congress to the proposed discontinuance of the silver dollar as a standard. It appeared, he said, that the step was voluntarily and with reflection determined upon. He could not believe that Congress was generally informed only upon those events or propositions which were explained in the newspapers, and, if the people had not been informed, Congress, which represented them, must, or should have known. There was no plebiscite in the United States. Moreover, he failed to see how the alleged subsequent surprise of the people was admissible, as the law of 1873 had brought about no change in the currency, silver having long before ceased to be money in circulation.

General Walker hardly succeeded in removing the unpleasant features of this courteous reflection upon the deliberations of Congress, by explaining that the change was even unknown to men in the United States specially occupied with financial and monetary subjects, for he himself had to confess that, though at the time lecturing on money and occupying a chair of political economy, he was not aware of what was being done. The European delegates were charitable enough to press the subject no further, though, had they been cruelly inclined, they might have asked ex-Senator Fenton, who was a

member of the Finance Committee, which was supposed to have surreptitiously dropped the dollar finally, and who had advocated the substitution of the trade dollar, if he also was unaware of the nature of the act."

The silver trade dollar, created by the act of 1873, was deprived of legal tender qualities on July 22, 1876, and in February, 1887, the trade dollar was retired.

On Jan. 14, 1875, the act for the resumption of specie payments was passed. The provisions on this subject were as follows:

"An Act to Provide for the Resumption of Specie Payments.

"Be it enacted, . . . That the Secretary of the Treasury is hereby authorized and required, as rapidly as practicable to cause to be coined at the mints of the United States, silver coins of the denominations of ten, twenty-five, and fifty cents, of standard value, and to issue them in redemption of an equal number and amount of fractional currency of similar denominations, or, at his discretion, he may issue such silver coins through the mints, the sub-treasuries, public depositaries, and postoffices of the United States; and, upon such issue, he is hereby authorized and required to redeem an equal amount of such fractional currency, until the whole amount of such fractional currency outstanding shall be redeemed."

This same act abolished the mint charge of one-fifth of one per cent. on gold coins, and also did away with the limit upon the aggregate amount of National bank notes which could be issued.

Discussions upon the demonetization of silver in 1873 began to take place in Congress early in 1876.

"A bill has been introduced, one provision of which would deprive the trade dollar of its legal-tender function for amounts up to \$5. In the course of a discussion, Senator Bogy, of Missouri, called attention to the fact that, if the legal-tender function of this trade coin were taken away, there would be no silver dollar of any legal tender. Senator Conkling, of New York, who had held a seat in the Senate when the act of 1873 was passed, in apparent surprise inquired: 'Is it true that there is now—by law—no American dollar? And, if so, is it true that the effect of the bill is to be to make half-dollars and quarter-dollars the only silver coin which can be used as legal tender?'

Senator Sherman replied that the use of the silver dollar had been discontinued in 1853. Senator Bogy said that the power to issue them existed till 1873, 'but since 1873, I think,' he said, 'there has been no power.' Senator Jones further explained that the privilege was taken away in 1873, 'but it needed no law to prevent people from coining such a dollar for use in business when there was another dollar to be got three or four per cent cheaper.' The revelation did not at first attract public attention and was considered of too little importance to be given a place in the national platforms of the year; but during the presidential campaign it became a convenient 'object lesson' in the arguments of Greenbackers, and when the people once took hold of the fact it spread like wildfire. They wondered whether it had been in any way responsible for producing the panic

of 1873 and the subsequent depression, and then began to believe that it had. Inflationists classed it as another scheme for contraction."

This subject was not, however, mentioned in the political platforms of 1876, and the matter first began to be, what might be considered, a live political question in 1877. Even Senator Sherman appeared willing to make some concessions to silver in 1876, and reported from the Senate Finance Committee a bill providing for the coinage of silver dollars of 412.8 grains (thus making the ratio 16 to 1 instead of 15.98 to 1), which should be legal tender to the amount of \$20. Free silver amendments to this bill were offered in the House, but nothing was done at this session. A joint resolution, however, was passed upon the last day of the session providing for a joint commission to consist of three senators, three representatives, and not more than three financial "experts," who were to inquire:

"(1) Into the change which has taken place in the relative value of gold and silver; the causes thereof, whether permanent or otherwise; the effects thereof upon trade, commerce, finance, and productive interests of the country and upon the standard of value in this and foreign countries.

(2) Into the policy of the restoration of the double standard in this country; and, if restored, what the legal relation between the two coins should be.

(3) Into the policy of continuing legal-tender notes concurrently with the tallic standards, and the effect thereof upon the labor, industries, and wealth of the country; and

“(4) Into the best means for providing for facilitating the resumption of specie payments.”

The majority of this committee reported in favor of the restoration of the double standard.

In March, 1877, Rutherford B. Hayes became President of the United States and John Sherman Secretary of the Treasury. President Hayes was personally a strong supporter of the single gold standard, but the advocates of silver were very strong in Congress throughout his whole administration. Early in this administration the question as to whether the United States bonds were payable either in gold or silver, or only in gold, began to assume a position of great practical importance.

The silver movement (although to a certain extent overshadowed by the Greenback movement) continued to make rapid progress among the public during 1877-8, and in October, 1877, a free silver bill was passed by the House of Representatives by a vote of 163 to 34. In the Senate the supporters of free silver were unable to command a majority of the votes in favor of their complete programme, and the Bland-Allison Act was adopted as a compromise. President Hayes vetoed this act on February 28, 1878, but it was passed over his veto on the same day by a vote of 46 to 19 in the Senate, and 196 to 73 in the House.

The history of this bill in Congress is thus described by James G. Blaine in his “Twenty Years of Congress”:

“On the 5th of the previous November, during the extra session, the House passed, under a suspension of the rules, a bill for the free coinage of silver

dollars of $412\frac{1}{2}$ grains, full legal tender for all debts, public and private. Mr. Richard P. Bland, of Missouri, was the author of the measure. The vote upon it stood 163 ayes to 34 noes, 93 members not voting. It was reported in the Senate with amendments, in December, and its discussion was superseded for the time by the resolution of Mr. Matthews. As reported from the Finance Committee, it provided for a coinage of dollars of $412\frac{1}{2}$ grains to the extent of not less than \$2,000,000 nor more than \$4,000,000 per month; all seigniorage to accrue to the Treasury. A second section, proposed by Mr. Allison, of Iowa, authorized the President to invite other nations to take part in a conference and to appoint three Commissioners to represent the United States, with a view to the adoption of a common ratio for gold and silver.

The bill gave rise to a longer and broader discussion than that which had occurred on Mr. Matthews' resolution. It was opened by Mr. Morrill, of Vermont. He pronounced the measure a 'fearful assault upon the public credit. It resuscitates the obsolete dollar which Congress entombed in 1834, worth less than the greenback in gold, and yet to be a full legal-tender.' He thought that the causes of the depreciation of silver were permanent. 'The further price may waver one way or the other, but it must finally settle at a much lower point. Nothing less than National will and power can mitigate its fall.'

Mr. Wallace, of Pennsylvania, charged that the opponents of the bill were 'taking a course for the

abasement, depreciation, and disuse of silver. The supporters of the bill favor both gold and silver.'

Mr. Dawes dwelt on the uncertain commercial value of silver and on the harm to the public credit threatened by the impending measure, insisting that the cheapest money would be our only money.

Mr. Beck, of Kentucky, submitted a proposition to direct the coinage of 'not less than \$3,000,000 per month, or as much as can be coined at the mints of the United States.'

Mr. Thurman, of Ohio, thought that the contract provided for the payment of public debts in coin of the standard of 1870, when the dollar of 412½ grains was full legal-tender, and that such dollar would approximate to gold in value.

Mr. Kerman, of New York, said: 'This bill does not proceed upon the basis that we are to make a silver dollar equivalent to a gold dollar,' and he thought that the cheaper coin would inevitably drive out the gold coin.

Mr. Blaine submitted an argument 'that gold and silver are the money of the Constitution, the money in existence when the Constitution was formed, and Congress has the right to regulate their relations.' He favored the coinage of 'such a silver dollar as will not only do justice among our citizens at home, but prove an absolute barricade against the gold monometalists.' He did not believe that '412½ grains of silver would make such a dollar.'

Mr. Davis, of West Virginia, favored the utilization of silver 'because it is one of our chief products, will make the money known to the Constitution more

abundant, will relieve distress, and lead back to prosperity.'

Mr. McDonald, of Indiana, thought that 'if no change had been made in our coinage laws, no proposition would be made to change them now. The Act of 1873 demonetizing the silver dollar made the pending measure necessary.'

Mr. McPherson said that he was 'charged by a large majority of the people of New Jersey to remonstrate against the measure, which they believe will retard prosperity and throw a blot upon our National integrity.'

Mr. Sargent, of California, representing a mining State, opposed the bill 'as against good faith, and against the interests of the Government and of the people.'

Mr. Ingalls, of Kansas, argued that the public debt is payable in silver and if the money unit should be established in the metal least subject to fluctuation that metal is silver. Gold is the money of monarchs, and was in open alliance with our enemies in the Civil war.

Mr. Jones, of Nevada, supported the bill in a very elaborate speech. He had an enthusiastic faith in silver as a circulating medium, and had given a great deal of study to the question.

Mr. Lamar presented resolutions from the Legislature of his State instructing the senators and requesting representatives to vote for the pending measure. He explained that he could not comply with the instructions and would give the reasons for his vote to his own people.

Mr. Allison, of Iowa, closed the debate, drawing

the distinction between free coinage as proposed in the House bill, and limited coinage as proposed in the Senate amendment. He dwelt on the invitation for an International Monetary Conference. He recited the growing demand for gold in Europe, and explained that 'France ceased coining silver because she already had in circulation as full legal-tender from \$350,000,000 to \$400,000,000 in that coin.'

In the course of the discussion the history of the Demonetizing Act of 1873 was brought out, and the degree of attention, or rather inattention, which was given to its passage. On proceeding to vote the Senate rejected an amendment by Mr. Morrill, providing that for the first year only 25 per cent, and for the second year only 50 per cent, of the duties should be receivable in silver. The amendment of Mr. Wallace 'that \$100,000,000 should be coined in silver dollars within three years, and then the coinage should cease if bullion should be more than three per cent below par,' was also rejected. The Senate refused to agree to an amendment offered by Mr. Edmunds 'that nothing in this section contained shall be construed to interfere with the coinage of gold and of the subsidiary silver now authorized by law.' The section providing for an International Conference was adopted—ayes, 40; noes, 30. Several forms of amendment relative to the legal-tender provision were suggested, but the phrase as it appears in the law was preferred. Amendments offered by Mr. Eaton, Mr. Christiancy, Mr. Blaine, and Mr. Cameron, of Wisconsin, to increase the amount of silver in the coin, so as to approximate it to the value of the gold dollar, were severally rejected by large majori-

ties. After providing, on Mr. Chaffee's motion, for certificates of not less than \$10 in exchange for silver coin deposited and redeemable in the same on demand, the Senate passed the bill with its amendments by—ayes, 48; noes, 21.

On the return of the bill to the House of Representatives debate began on February 21. Mr. Phillips, of Kansas, advocated the double standard with the ratio of metal properly determined, and he thought this was done in the dollar of 412½ grains. General Butler, of Massachusetts, was in favor of insisting on the House bill for free coinage, and was seconded by Mr. Atkins, of Tennessee. Mr. Bland was willing to accept the Senate amendments and then pass a supplementary measure for free coinage on an appropriation bill. He added: 'If we cannot do that I am in favor of issuing paper money enough to stuff down the bondholders until they are sick.' Mr. Dwight, of New York, sought to limit the legal-tender quality of the silver dollar to \$50, and for larger sums to make it receivable at its value in gold. A motion by Mr. Hewitt, of New York, to lay the bill on the table was lost by ayes 71, noes 205. The several amendments of the Senate were then adopted; that limiting coinage by 203 ayes to 72 noes, and that for an International Monetary Conference by ayes 196, noes 71. The concurrency of the House in these amendments passed the bill.

President Hayes returned the bill to the House of Representatives with his objections on the 28th of February. He based his veto on the proposition that 'the silver dollar authorized is worth eight or ten per cent less than it purports to be worth, and is made a

legal-tender for debts contracted when the law did not recognize such coin as lawful money. The effect would be to put an end to the receipt of revenue in gold, and thus compel the payment of silver for both the principal and interest of the public debt.' This he thought would be regarded as a grave breach of public faith. 'It is my firm conviction that if the country is to be benefited by a silver coinage it can only be done by the issue of silver dollars of full value which will defraud no man. A currency worth less than it purports to be worth will in the end defraud not only creditors, but all who are engaged in legitimate business, and none more surely than those who are dependent on their daily labor for their daily bread.'

The House voted at once on the veto, passing the bill against the objections of the President by ayes 196, noes 73. The vote was taken in the Senate on the same day, without debate, and the bill was passed over the veto by ayes 46, noes 19. The senators not voting were paired. Had every senator been present and voted the result would have been 53 ayes, 23 noes. New England, New York and New Jersey supplied the principal part of the negative vote.

Mr. Bayard, Mr. Pinkney Whyte, Mr. Butler, of South Carolina, and Mr. Lamar were the senators from the South who voted in the negative. Pennsylvania, the South and the West sustained the bill. The Pacific coast was divided—Mr. Booth supporting the bill and Mr. Sargent opposing it. The only vote for the bill in either House from New England was that of General Butler. The proportion and general loca-

tion of the votes in the House were about the same as in the Senate.

The opinions of senators and representatives were of three distinct types. The majority believed, as the vote showed, in the policy of coining silver dollars of full legal-tender, regardless of their intrinsic value with gold dollars, thus creating two metallic currencies, differing in value for all purposes of commercial interchange with the world, and keeping them at an equality of value at home by the force of the law. The great mass of the Democratic party and a considerable number of Republicans joined in this view.

A small minority of both parties disbelieved in the use of silver as money, except for subsidiary coins, with its legal-tender value limited to small sums, \$50 being the highest proposed, the majority apparently favoring \$40.

A majority of Republicans and a minority of Democrats asserted the necessity of maintaining silver coin at full legal-tender, but upon the basis of equality in intrinsic value with the gold dollar. This class feared the effect of an exclusively gold standard, while the supply of gold compared with the commercial demands of the world is relatively and rapidly growing less. They had seen the ratio of gold supply far beyond that of silver for a series of years following 1850, and then for a series of years the ratio of silver-supply in excess of supply of gold. The theory advocated by this class rested upon the proposition that the dollar of commerce could not with safety be exclusively based either upon the scarcer or upon the more plentiful metal.

An adjustment is required providing for the employment of both metals, maintaining between them such fair equalization as would not violently disturb the value of real property or of annual products, and most important of all would secure a steadiness in the wages of labor and a sound currency in which to recompense it. The supply of both metals for two periods of sixteen years each (1850-1865, both included, and 1866-1881, both included) in the United States and in the world at large may suggest some useful lessons."

The text of this bill was as follows:

"An Act to Authorize the Coinage of the Standard Silver Dollar, and to Restore its Legal-Tender Character.

"Be it enacted, . . . That there shall be coined, at the several mints of the United States, silver dollars of the weight of four hundred and twelve and a half grains troy of the standard silver, ~~as~~ provided in the act of January eighteen, eighteen hundred thirty-seven, on which shall be the devices and superscriptions provided by said act; which coins together with all silver dollars heretofore coined by the United States, of like weight and fineness, shall be a legal tender, at their nominal value, for all debts and dues, public and private, except where otherwise expressly stipulated in the contract. And the Secretary of the Treasury is authorized and directed to purchase, from time to time, silver bullion, at the market price thereof, not less than two million dollars' worth per month, nor more than four million dollars' worth per month, and cause the same to be coined monthly, as fast as so purchased, into

such dollars; and a sum sufficient to carry out the foregoing provision of this act is hereby appropriated. And any gain or seigniorage arising from this coinage shall be accounted for and paid into the Treasury, as provided under existing laws relative to the subsidiary coinage; Provided, That the amount of money at any one time invested in such silver bullion, exclusive of such resulting coin, shall not exceed five million dollars; And provided further, That nothing in this act shall be construed to authorize the payment in silver of certificates of deposit issued under the provisions of section two hundred and fifty-four of the Revised Statutes."

Sec. 2. That immediately after the passage of this act the President shall invite the governments of the countries composing the Latin Union, so-called, and of such other European nations as he may deem advisable, to join the United States in a conference to adopt a common ratio between gold and silver, for the purpose of establishing, internally, the use of bimetallic money, and securing fixity of relative value between those metals; such conference to be held at such place, in Europe or in the United States, at such time within six months as may be mutually agreed upon by the executives of the governments joining in the same, whenever the governments so invited, or any three of them, shall have signified their willingness to unite in the same.

The President shall, by and with the advice and consent of the Senate, appoint three commissioners, who shall attend such conference on behalf of the United States, and shall report the doings thereof

to the President, who shall transmit the same to Congress.

Said commissioners shall each receive the sum of twenty-five hundred dollars and their reasonable expenses, to be approved by the Secretary of State; and the amount necessary to pay such compensation and expenses is hereby appropriated out of any money in the Treasury not otherwise appropriated.

Sec. 3. That any holder of the coin authorized by this act may deposit the same with the Treasurer or any assistant treasurer of the United States, in sums not less than ten dollars and receive therefor certificates of not less than ten dollars each, corresponding with the denominations of the United States notes. The coin deposited for or representing the certificates shall be retained in the Treasury for the payment of the same on demand. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received, may be reissued.

Sec. 4. All acts and parts of acts inconsistent with the provisions of this act are hereby repealed."

Prior to the passage of the Bland-Allison Act, Congress had adopted a joint resolution in January, 1878, declaring that both the principal and interest of the public debt was payable in silver coin, at the option of the government.

For a period after the passage of the Bland-Allison Act there was a comparative truce in the contest between the supporters and opponents of silver. In the latter part of the eighties a strong movement again became manifest in favor of a larger use of silver, and as the result of another compromise the Sherman Act of 1890 was passed. This bill, while

still keeping from silver the free coinage privilege which it possessed prior to 1873, provided for a larger purchase and coinage of this metal by the government. The text of this bill was as follows: "An Act Directing the Purchase of Silver Bullion and the Issue of Treasury Notes Thereon, and for Other Purposes.

"Be it enacted, . . . That the Secretary of the Treasury is hereby directed to purchase, from time to time, silver bullion to the aggregate amount of four million five hundred thousand ounces, or so much thereof as may be offered in each month, at the market price thereof, not exceeding one dollar for three hundred and seventy-one and twenty-five hundredths grains of pure silver, and to issue in payment for such purchases of silver bullion Treasury notes of the United States to be prepared by the Secretary of the Treasury, in such form and of such denominations, not less than one dollar nor more than one thousand dollars, as he may prescribe, and a sum sufficient to carry into effect the provisions of this act is hereby appropriated out of any money in the Treasury not otherwise appropriated.

Sec. 2. That the Treasury notes issued in accordance with the provisions of this act shall be redeemable on demand, in coin, at the Treasury of the United States, or at the office of any assistant treasurer of the United States, and when so redeemed may be reissued; but no greater or less amount of such notes shall be outstanding at any time than the cost of the silver bullion and the standard silver dollars coined therefrom then held in the Treasury purchased by such notes; and such Treasury notes shall

be a legal tender in payment of all debts, public and private, except where otherwise expressly stipulated in the contract, and shall be receivable for customs, taxes, and all public dues, and when so received may be reissued; and such notes, when held by any national banking association, may be counted as a part of its lawful reserve. That upon demand of the holder of any of the Treasury notes herein provided for the Secretary of the Treasury shall, under such regulations as he may prescribe, redeem such notes in gold or silver coin, at his discretion, it being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio, or such ratio as may be provided by law.

Sec. 3. That the Secretary of the Treasury shall each month coin two million ounces of the silver bullion purchased under the provisions of this act into standard silver dollars until the first day of July, eighteen hundred and ninety-one, and after that time he shall coin of the silver bullion purchased under the provisions of this act as much as may be necessary to provide for the redemption of the Treasury notes herein provided for, and any gain or seigniorage arising from such coinage shall be accounted for and paid into the Treasury.

Sec. 4. That the silver bullion purchased under the provisions of this act shall be subject to the requirements of existing law and the regulations of the mint service governing the methods of determining the amount of pure silver contained, and the amount of charges or deductions, if any, to be made.

Sec. 5. That so much of the act of February

twenty-eight, eighteen hundred and seventy-eight, entitled 'An Act to authorize the coinage of the standard silver dollar and to restore its legal-tender character,' as requires the monthly purchase and coinage of the same into silver dollars of not less than two million dollars, nor more than four million dollars worth of silver bullion, is hereby repealed.

Sec. 6. That upon the passage of this act the balances standing with the Treasurer of the United States to the respective credits of national banks for deposits made to redeem the circulating notes of such banks and all deposits thereafter received for like purpose shall be covered into the Treasury as a miscellaneous receipt, and the Treasury of the United States shall redeem from the general cash in the Treasury the circulating notes of said banks which may come into his possession subject to redemption; and upon the certificate of the Comptroller of the Currency that such notes have been received by him and that they have been destroyed and that no new notes will be issued in their place, reimbursement of their amount shall be made to the Treasurer, under such regulations as the Secretary of the Treasury may prescribe, from an appropriation hereby created, to be known as the National Bank Notes Redemption Account, but the provisions of this act shall not apply to the deposits received under section three of the act of June twentieth, eighteen hundred and seventy-four, requiring every National Bank to keep in lawful money with the Treasurer of the United States a sum equal to five per centum of its circulation, to be held and used for the redemption of its circulating notes, and the balance remaining

of the deposits so covered shall, at the close of each month, be reported on the monthly public debt statement as debt of the United States bearing no interest.

Sec. 7. That this act shall take effect thirty days from and after its passage."

The Sherman Act was repealed in 1893 as a result of the panic of that year.

Section 22. The Campaign of 1896.

The silver controversy culminated in the campaign of 1896. In this campaign, for the first time in American political history, the two great political parties took open and opposite sides on this question, the Democratic party declaring without reservation for the free coinage of silver and the Republican party declaring for a single gold standard, qualifying this position (mainly through the efforts of the New Hampshire delegates) with a declaration in favor of international bimetallism, if this was found possible of attainment.

As the advocates of a single and of a double standard, previously to this time, had been found mingled indiscriminately in both parties, the result of the two party platforms was to bring about a radical realignment of parties. Formidably sized "bolts" among the very delegates to each national convention took place, and the number of individual voters who changed their political affiliations this year, in one direction or the other, ran into the millions.

All other issues were practically lost sight of in this campaign, which resulted in the victory of the Republican party and gold, which carried twenty-three out of the forty-five States, and received 271

electoral votes to 176, and 7,104,779 popular votes to 6,357,826. The result of the election was also to give the supporters of a single gold standard a majority in both houses of Congress for the first time since the beginning of the silver controversy.

Section 23. Arguments For and Against the Free Coinage of Silver.

The principal arguments urged for or against the free coinage of silver in the twenty years' contest from 1876 to 1896 were as follows:

ARGUMENTS IN FAVOR OF A SINGLE GOLD STANDARD.

The maintenance of the National honor and credit demand that the obligations of the United States must not be paid in a depreciated currency.

Certainty and security as to the currency and monetary standard of a country are absolutely essential to business prosperity. Such certainty can only be secured by a single standard.

It is impossible for any two commodities to preserve any particular

ARGUMENTS IN FAVOR OF THE FREE COINAGE OF SILVER.

Silver was the standard of value in the United States from 1789 to 1873, and was the standard under which the National debt was contracted.

A double standard produces greater certainty than a single one, as the fluctuations of one will balance the other, and there is less danger of a rapid increase or decrease in its value.

The ratio between gold and silver remained between 15 to 1 and 16 to 1 for centuries. If two

ratio between themselves for any long period.

The rapid decline in the value of silver from 1873 to 1896 shows it to be unsuited for use as a standard of value.

metals are made interchangeable for coinage purposes at a fixed ratio, the law of the "substitution of commodities" will tend to keep the relative values close to the ratio.

The fall in value of silver was mainly caused by the reduction in the demand for silver by its demonetization.

The fall in the price of other commodities shows that gold has risen in value instead of silver falling.

The purchasing power of silver, although not its debt paying power, is as great as ever.

Mr. Bryan and other supporters of "free silver" in 1896, qualified their prophecies as to the evils which would result from the adoption of the single gold standard by saying that a great increase in the production of gold would accomplish substantially the same results as the free coinage of silver.

Section 24. International Bimetalism.

A common system of weights, measures and currency, based upon the metric system, is believed to have been one of the many dreams of the first Napoleon. About the beginning of the nineteenth

century the idea of such common system began to make headway among other nations. The subject was discussed at the International Exhibition at London in 1851 and at the International Statistical Congress at Brussels in 1853. In 1856 the United States Congress passed a joint resolution in favor of an agreement with England looking towards the adoption, by the two countries, of some system of coinage, under which the coins of the two countries would be easily interchangeable. The subject was further favorably considered at the International Statistical Congress at Vienna in 1859, and was shortly afterwards taken up with great earnestness by Napoleon III.

The scope of this movement was at first general, looking towards a uniformity in weights, measures and coins throughout the world, but its scope was soon reduced to an effort to secure some international agreement as to the ratio to be accepted between gold and silver. The increase in foreign trade in the nineteenth century had more clearly than before shown to the world the inconveniences arising from the existence of different ratios between the metals, in different countries, and had accentuated the action of "Gresham's law."

The first step towards the correction of the existing evils was the creation of the Latin Union in 1865. France, Italy, Belgium, and Switzerland were the original members of this union. A uniform and interchangeable system of coins was adopted by the Union. The treaty provided that the Union should continue for fifteen years and that any other country could join by adopting the same system of coinage.

Through the efforts of France the "double standard" instead of the single gold standard was adopted.

During the four years immediately following the formation of this Union the average number of five-franc pieces (the principal silver coin of the Union) annually coined in France was three hundred times greater than the average for the previous few years. This great and unexpected increase was not the result of the formation of the Union, nor of the demonetization of silver by other countries (for such demonetization had not yet begun to take place), nor yet of the great increase in the production of silver (which had not yet begun). The true cause was the inability of India (formerly the greatest silver consumer in the world) to take or keep her former proportion of the metal.

In this connection it should be mentioned that the fall in the value of silver was not **begun** by the demonetization of silver by the United States (as has so often been claimed by the advocates of the free coinage of silver), nor, on the other hand, by the increased production of silver (as has been claimed by the advocates of the single gold standard). Both of these causes tended to reduce the value of this metal, but the first great impetus was given by the draining away from India to Europe of vast quantities of silver, through the inability of the inhabitants of India to meet the ruinous taxation, forced upon it by England, out of the annual production of the country.

France endeavored to secure new members for the Latin Union and succeeded in securing the accession of the States of the Church in 1866 and of Greece and Roumania in 1867. Failing to secure the

allegiance of any of the great powers to the Union, France adopted a new cause and invited the various countries to send representatives to an International Monetary Conference. Among the countries represented at this conference of 1867 were: France, the United States, England, Bavaria, Switzerland, Russia, Greece, Austria, Baden, Sweden, Norway, Spain, Turkey, and Wurtemberg.

An international committee, sitting before the meeting of the conference, had drawn up the following propositions to be considered by the conference:

“1. An identical unity in the issue of gold coins by different nations.

2. The desirability of having such coins uniformly nine-tenths fine.

3. The desirability of having for each government pieces of equal value with pieces in other States.

4. Recommending the coins of the Latin Union as the basis of a general monetary system.

5. Recommending the five-franc piece as a unit.

6. Uniform coins of each country to be legal-tender in all the other countries.

7. The desirability of abolishing the double tender in all the other countries.

8. The desirability of using the decimal system everywhere.

9. The desirability of agreeing upon common measures of control.”

The great purpose of France in this conference was to secure the adoption of the French five-franc piece as the world-wide monetary standard. In addition to this France favored a double standard or a

uniform ratio between gold and silver. It is possible that France would have waived this latter proposal in exchange for the adoption of the French coins as the monetary standard.

The members of the conference were strongly in favor of some international agreement, but were powerless to act themselves and were divided over the question of a double or a single standard, and were each prejudiced in favor of the currency system of his own country. The recommendations of the conference (which produced no results) amounted to little more than that some uniform system should be adopted.

The International Monetary Conference of 1878 practically confined its attention to the question of a double or a single standard. Between the Conferences of 1867 and 1878, both the demonetization of silver by various countries (including the United States), the increase in its production, and its fall in value had begun. The fight for an international double standard agreement was led by the delegates from the United States. At this time practically the whole United States would have welcomed the adoption of a system of international bimetallism: the silver men because they were for "free silver" in any way by which it could be obtained, and the conservative elements because they feared that if bimetallism was not quickly obtained by international agreement, it might be forced upon the United States regardless of the action of other countries. The United States delegates, however, were unsuccessful in their efforts. England, and some of the smaller countries, were already too strongly committed to a single gold

standard to consider even international bimetalism, while even France was much less favorable to silver than in 1867.

“The position of France, as stated by Say, was in effect this:

Having the double standard in theory, it had it not in practice, for the privilege formerly enjoyed by private persons of having their silver coined at the mints had been withdrawn. In taking this step, the government had declared categorically that it was not moving towards a gold standard, but was in a condition of expectancy from which it should not move except for good reasons when they appeared, and then, probably, to re-enter into the system of the double standard. Placed in the center of the Latin Union, France had collected a great quantity of silver—about 9,000,000,000 francs in the Bank of France and about 1,500,000,000 francs outside. It certainly would not do, said Say, to withdraw a legal-tender power from such a mass of silver and throw it on the metal market as mere merchandise. Such an idea was inadmissible. But France could not change its attitude of expectancy so long as the fall of silver could not be accurately recognized and measured, and, notably, till Germany should have completed the sale of its stock. Whatever that stock might be, so long as it remained the market would be troubled and uncertain. This might take place within two or three years; it was, he said, the dark side of the question that deprived France of her freedom of action. The propositions of the United States, therefore, seemed premature to France, which could not find a way to accept them then, but ~~was~~

unwilling to have this lack of assent considered as condemnation of the bimetallic system. As there was reason to believe that less than a majority of the conference could pronounce in favor of the propositions of the United States, it would be better for the conference to abstain from making a formal answer to the questions put to it. Better results, he thought, might follow if the States represented at the meeting should simply agree upon the expression of a common idea as to the employment of silver as money, and should invite each other, reciprocally, to take no measures in their domestic legislation of a nature to contribute to the depreciation of silver. To the first paragraph of the proposition—that ‘it is the opinion of the assembly that it is not to be desired that silver should be excluded from free coinage in Europe and the United States’—France would willingly give assent, although for the moment it could not return to free coinage, and could not yet discover the reasons which, perhaps, it might some day have for re-establishing it. As to the second paragraph—‘on the contrary, the assembly believe that it is desirable that the unrestricted coinage of silver and its use as money of unlimited legal tender should be retained where they exist, and, as far as practicable, restored where they have ceased to exist.’ France thought that silver ought to maintain the character of legal money where it possessed it, but it could not assert that it would be proper to give it that character everywhere where it did not possess it. As to safely adopting the use of both gold and silver as unlimited legal tender by equalizing them at a relation to be fixed by international agreement, France could not

say in advance that there would be such a proportion between the future production of silver in the mines and the regular and constant demand of Asiatic commerce that the legal relation would never come to be altered; it would be especially difficult for France to assert the maintenance of this equilibrium when it knew that in a moment Germany could throw upon the metal market the mass of silver the government had in hand. The only certain thing about silver, says Say, in conclusion, was that its circulation did not proceed regularly, was unsettled, and made sickly by the instability of ratio. It was not, therefore, a final, absolute refusal which France opposed to the project of the United States. The question might one day be answered. Say's statement showed that nothing could be expected from France while Germany held off."¹⁰

The result, or rather the lack of results, of this conference has been thus summarized:

"No one expressed any desire to further prolong the discussion, and thus, on August 29, after seven sessions, the conference of 1878 adjourned. Quite apparently nothing of a practical nature resulted. The cause of the exclusive gold standard was, nevertheless, appreciably weakened, and that of bimetallism somewhat, if not correspondingly, increased. The attitude of the nations was very different from that taken in 1867, when all were for the gold basis, and only a Dutch delegate had misgivings as to the economic effects of its general adoption. No delegate in 1867 favored a double standard or considered it economically possible. In 1878, only the delegates

¹⁰ Russell's International Monetary Conferences.

of Belgium and the Scandinavian states considered the general adoption of the gold standard as either desirable or possible. England regarded it as Utopian, Switzerland admitted that only advanced nations could afford it, while France, Holland and Austria, though deeming the adoption of bimetallism impracticable, favored it as the object to be sought in the future. The United States and Italy desired its immediate adoption. This was undoubtedly a distinct gain.

The economic results of the artificially created demand for gold had not yet manifested themselves so appreciably as to suggest all of the arguments for international bimetallism. The fall in prices was yet largely theoretical. Statistics were incomplete, and the few attempts made in the conference to demonstrate the fall were inconclusive. But the leading advocates of gold discarded their argument of a few years before concerning the ample supply of gold. The impossibility of maintaining it had been demonstrated by some unpleasant experiences in the banks of issue, and it was, therefore, necessary to make more of the argument for the division of the world into groups according to their commercial development—an argument incapable of enduring close scrutiny.

The two serious obstacles to the accomplishment of definite results in the conference were the non-participation of Germany and the uncertainty as to the future course of events in the United States. Their legitimate offspring was the 'attitude of expectancy.' With German silver in the market, the Latin Union could not reopen its mints, and in all

probability it would not care to do so should the United States freely open theirs, either independently or in co-operation with governments outside of Europe, for it would never consent to the adoption of the American ratio and recoin its enormous mass of silver; nor could it reopen its mints without adopting the American ratio, for, there being three per cent difference, all the silver would have gone to the Latin Union for coinage, and its gold would have gone to the United States and Germany. With Europe in this attitude all negotiations were useless."¹¹

The third important International Monetary Conference was that of 1881. By this time the mints of all the European countries had been closed to silver, and all the leading countries were engaged in a contest to secure a sufficient supply of gold to establish themselves firmly on a gold basis. There was no real attempt at the conference of 1881 to secure an international agreement as to the coinage of silver. Each nation was pursuing a selfish policy and attempting to secure some advantage for itself at the expense of the others. Each desired to have other countries open their mints to silver so that it itself might be aided in securing an additional supply of gold.

The last of the great International Monetary Conferences was that of 1892. The countries represented were: United States, Austria-Hungary, Belgium, Denmark, England, France, Germany, Greece, Italy, Mexico, Norway, Holland, Portugal, Roumania, Russia, Spain, Sweden, Switzerland, and Turkey. The representatives of the United States again led the

¹¹ Id.

fight for international bimetallism or at least a greater use of silver. At the opening of the conference Senator Allison presented the following statement and proposals:

“It is generally admitted that the very large depreciation in silver, as compared with gold, during the last twenty years, and the frequent and violent fluctuations in the gold price of silver incident thereto, have been injurious to the commercial and other economic interests of all civilized countries, and have caused, and are causing, serious evils and inconveniences to trade, the full extent of which cannot yet be measured.

It is the opinion of the people of the United States, with singular unanimity, that the establishment of some fixity of value between gold and silver and the full use of silver as a coin metal, upon a ratio to gold to be fixed by an agreement between the great commercial nations of the world, would very greatly promote the prosperity of all classes of people. They are not unaware, however, of the fact that public opinion in some of the other countries, whose co-operation in a successful movement for such an agreement is most desirable, may not fully accord with the views entertained in the United States as to the practicability of such an agreement. They believe, however, that a sentiment for a larger use of silver as a money metal has been steadily growing throughout the world, and that the time is propitious for holding an international conference to consider the subject. The government of the United States, while frankly disclosing its own views as to the proper remedy to be applied, did not wish to impose

any conditions that would embarrass any government that might be willing to confer upon the most advantageous relation of silver to the coinage of the world.

For these reasons the government of the United States proposed a convention of the powers for the purpose of conferring as to what measures, if any, can be taken to increase the use of silver as money.

In conformity to the general purpose of this conference, the delegates of the United States offer the following resolution:

‘That in the opinion of this conference it is desirable that some measures should be found for increasing the use of silver in the currency systems of the nations.’

In presenting, as requested, a further programme to be laid before the conference the delegates of the United States consider it to be due to the other nations here represented that an opportunity should be afforded them to consider plans for the enlarged use of silver as money other than one favored by the United States. It is our desire and expectation that the powers represented at this conference, or some of their delegates, should submit proposals looking to this end; and we desire that these proposals should have precedence in the discussion, in addition to any plans of the kind which have been suggested by recognized authorities. At the same time we submit the general plan of international bimetallism which is favored by the United States:

1. The plan of M. Moritz Levy, proposed to the monetary conference of 1881.

2. The plan of the late distinguished A. Soetbeer.

Lastly, we present the plan favored by ourselves as delegates of the United States of America:

1. That the re-establishment and maintenance of a fixed parity between gold and silver, and the continued use of both as coined money of full debt-paying power, would be productive of important benefits to the world.

2. That these ends can be accomplished by removing the legal restrictions which now exist on the coinage of silver into full legal-tender money, and restoring, by international agreement, the parity of value between the metals which existed prior to 1873, at such ratio as may be decided upon by this conference.

3. That the essential provisions of such an international arrangement should be:

(a) Unrestricted coinage of both gold and silver into money of full debt-paying power.

(b) Fixing the ratio in coinage between the two metals.

(c) Establishing a uniform charge (if any) to the public for the manufacture of gold and silver coins.¹²

England at this time was anxious that a larger market should be created for silver in order to put a stop to the depreciation in the value of this metal and in order to relieve her of the losses which such a depreciation was occasioning her with relation to her Eastern commerce. She was not, however, willing to

¹² Id.

assume her share of the responsibility necessary to put a stop to such depreciation.

The position of England was set out in what was known as the Rothschild plan, which was as follows:

“The American government are purchasers of silver to the extent of fifty-four millions of ounces yearly, and I would suggest that, on condition these purchases were continued, the different European powers should combine to make certain yearly purchases, say to the extent of about £5,000,000 sterling annually, such purchases, say to be continued over a period of five years, at a price not exceeding 43 pence per ounce standard, but, if silver should rise above that price, the purchases for the time being to be immediately suspended. The details of such a scheme to form the subject of an international agreement to be discussed by representatives of the different powers.”

This plan was one manifestly framed for the benefit of England and was one particularly unfavorable to the United States. This plan was in the end referred to a special committee, whose inquiry was directed towards these four points:

1. The possibility of legislative measures to be taken by the silver-producing countries, with a view to restrict or regulate the production of that metal.

2. The existing probability as to the future production of silver in its two principal centres, namely, the United States and Mexico.

3. The policy of the United States in regard to the purchase of silver.

4. The policy of British India as to the coinage of silver.

This Committee finally decided to recommend the following plan:

"1. The European states which agree upon the basis of this proposal will buy each year 30,000,000 ounces of silver, on condition that the United States agree to continue their present purchases, and that unlimited free coinage be maintained in British India and Mexico.

2. The proportion of the purchase to be made by each country will be determined by agreement between them.

3. The purchases will be made at will and in the manner preferred by each government.

4. These amounts of silver will be devoted in each country to the monetary uses authorized by the legislation of that state; at the will of each government the silver will be either coined or made the guarantee for the issue of ordinary or special notes.

5. The arrangement will be made for five years. The obligatory purchase of silver will be suspended should the metal reach, in the London market, a price determined by agreement of the governments. The purchases may be resumed if the delegates of the different countries interested should agree upon the fixing of a new limit of price. They should be resumed in any case if the price falls below the original limit."¹³

Another suggested system was what was known as the "Soetbeer Plan," which was for a single gold standard, with complicated provisions for a larger use of silver at the ratio of 20-1.

The conference of 1892, like its predecessors, accomplished nothing, and was the last real attempt to

secure international bimetallism. The commission appointed by this country in 1897 (in pursuance of the pledge in the Republican National Platform in 1896) for the purpose of attempting once more to secure some international agreement on this subject met with no encouragement from European nations.

Section 25. The Act of 1900.

The result of the election of 1896, followed by the failure of the commission of 1897, finally committed the United States absolutely to the single gold standard, and this state of facts was recognized and definitely consummated by the Currency Act of 1900, which was as follows:

“Be it enacted, . . . Sec. 1. (Standard of value fixed—gold dollar.) That the dollar consisting of twenty-five and eight-tenths grains of gold, nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard, and it shall be the duty of the Secretary of the Treasury to maintain such parity.

Sec. 2. (Treasury notes—redemption in gold—reserve fund—disposition of funds from sale of bonds—limit to reserve fund.) That United States notes and Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, when presented to the Treasury for redemption, shall be redeemed in gold coin of the standard fixed in the first section of this Act, and in order to secure the

prompt and certain redemption of such notes as herein provided it shall be the duty of the Secretary of the Treasury to set apart in the Treasury a reserve fund of one hundred and fifty million dollars in gold coin and bullion, which fund shall be used for such redemption purposes only, and whenever and as often as any of said notes shall be redeemed from said fund it shall be the duty of the Secretary of the Treasury to use said notes so redeemed to restore and maintain such reserve fund in the manner following, to-wit: First, by exchanging the notes so redeemed for any gold coin in the general fund of the Treasury; second, by accepting deposits of gold coin at the Treasury or at any sub-treasury in exchange for the United States notes so redeemed; third, by procuring gold coin by the use of said notes, in accordance with the provisions of section thirty-seven hundred of the Revised Statutes of the United States. If the Secretary of the Treasury is unable to restore and maintain the gold coin in the reserve fund by the foregoing methods, and the amount of such gold coin and bullion in said fund shall at any time fall below one hundred million dollars, then it shall be his duty to restore the same to the maximum sum of one hundred and fifty million dollars by borrowing money on the credit of the United States, and for the debt thus incurred to issue and sell coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty-three per cent per annum, payable quarterly, such bonds to be payable at the pleasure of the United States after one year from the date of their issue, and to be payable, principal and interest, in

gold coin of the present standard value, and to be exempt from the payment of all taxes or duties of the United States, as well as from taxation in any form by or under the State, municipal, or local authority; and the gold coin received from the sale of said bonds shall first be covered into the general fund of the Treasury and then exchanged, in the manner hereinbefore provided, for an equal amount of the notes redeemed and held for exchange, and the Secretary of the Treasury may in his discretion use said notes in exchange for gold, or to purchase or redeem any bonds of the United States, or for any other lawful purpose the public interests may require, except that they shall not be used to meet deficiencies in the current revenues. That United States notes when redeemed in accordance with the provisions of this section shall be reissued, but shall be held in the reserve fund until exchanged for gold, as herein provided; and the gold coin and bullion in the reserve fund, together with the redeemed notes held for use as provided in this section, shall at no time exceed the maximum sum of one hundred and fifty million dollars. (31 Stat. L. 45.)

Sec. 3. (Quality of silver dollar, etc., unaffected.) That nothing contained in this Act shall be construed to affect the legal-tender quality ~~as~~ now provided by law of the silver dollar, or of any other money coined or issued by the United States. (31 Stat. L. 46.)

Sec. 4. (Relates to the divisions of issue and redemption in the Treasury Department. See Currency.)

Sec. 5. (Cancellation of Treasury notes for

silver dollars, coined, etc.—issue of silver certificates.) That it shall be the duty of the Secretary of the Treasury as fast as standard silver dollars are coined under the provisions of the Acts of July fourteenth, eighteen hundred and ninety, and June thirteenth, eighteen hundred and ninety-eight, from bullion purchased under the Act of July fourteenth, eighteen hundred and ninety, to retire and cancel an equal amount of Treasury notes whenever received into the Treasury, either by exchange in accordance with the provisions of this Act or in the ordinary course of business, and upon the cancellation of Treasury notes silver certificates shall be issued against the silver dollars so coined. (31 Stat. L. 47.)

Sec. 6. (Gold certificates to be issued on deposits of gold.) That the Secretary of the Treasury is hereby authorized and directed to receive deposits of gold coin with the Treasurer or any assistant treasurer of the United States in sums of not less than twenty dollars, and to issue gold certificates therefor in denominations of not less than twenty dollars, and the coin so deposited shall be retained in the Treasury and held for the payment of such certificates on demand, and used for no other purpose. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received may be reissued, and when held by any national banking association may be counted as a part of its lawful reserve. Provided, That whenever and so long as the gold coin held in the reserve fund in the Treasury for the redemption of United States notes and Treasury notes shall fall and remain below

one hundred million dollars the authority to issue certificates as herein provided shall be suspended; and, provided further, that whenever and so long as the aggregate amount of the United States notes and silver certificates in the general fund of the Treasury shall exceed sixty million dollars the Secretary of the Treasury may, in his discretion, suspend the issue of the certificates herein provided for; and provided further, that of the amount of such outstanding certificates one-fourth at least shall be in denominations of fifty dollars or less; and provided further, that the Secretary of the Treasury may, in his discretion, issue such certificates in denominations of ten thousand dollars, payable to order. And section fifty-one hundred and ninety-three of the Revised Statutes of the United States is hereby repealed. (31 Stat. L. 47.)

Sec. 7. (Denomination of silver certificates.) That hereafter silver certificates shall be issued only of denominations of ten dollars and under, except that not exceeding in the aggregate ten per centum of the total volume of said certificates, in the discretion of the Secretary of the Treasury, may be issued in denominations of twenty dollars, fifty dollars, and one hundred dollars; and silver certificates of higher denomination than ten dollars, except as herein provided, shall, whenever received at the Treasury or redeemed, be retired and canceled and certificates of denominations of ten dollars or less shall be substituted therefor, and after such substitution, in whole or in part, a like volume of United States notes of less denomination than ten dollars shall from time to time be retired and canceled, and notes of denomi-

nations of ten dollars and upward shall be reissued in substitution therefor with like qualities and restrictions as those retired and canceled. (31 Stat. L. 47.)

Sec. 8. (Silver bullion may be used for subsidiary coinage.) That the Secretary of the Treasury is hereby authorized to use at his discretion any silver bullion in the Treasury of the United States purchased under the Act of July fourteenth, eighteen hundred and ninety, for coinage into such denominations of subsidiary silver coin as may be necessary to meet the public requirements for such coin. Provided, that the amount of subsidiary silver coin outstanding shall not at any time exceed in the aggregate one hundred millions of dollars. Whenever any silver bullion purchased under the Act of July fourteenth, eighteen hundred and ninety, shall be used in the coinage of subsidiary silver coin an amount of Treasury notes issued under said Act equal to the cost of the bullion contained in such coin shall be canceled and not reissued. (31 Stat. L. 47.)

Sec. 9. (Recoinage of uncurrent silver coin.) That the Secretary of the Treasury is hereby authorized to cause all worn and uncurrent subsidiary silver coin of the United States now in the Treasury, and hereafter received, to be re coined, and to reimburse the Treasurer of the United States for the difference between the nominal or face value of such coin and the amount the same will produce in new coin from any moneys in the Treasury not otherwise appropriated. (31 Stat. L. 48.)

Sec 10. (Amends R. S., Sec. 5149. See National Banks.)

Sec. 11. (Relates to certain bonds of the United States. See Public Debt.)

Sec. 12. (Relates to National bank circulation. See National Banks.)

Sec. 13. (Relates to tax on circulating notes of National banks. See National Banks.)

Sec. 14. (International bimetallism.) That the provisions of this Act are not intended to preclude the accomplishment of international bimetallism whenever conditions shall make it expedient and practicable to secure the same by concurrent action of the leading commercial nations of the world and at a ratio which shall insure permanence of relative value between gold and silver."

By the above Act of 1900 the United States definitely adopted the gold standard as the basis of its currency, and this standard is now practically world-wide. It had been adopted even for India in 1899, at the rate of 15 rupees to one pound sterling (British standard), and other silver countries followed suit, including Mexico, in 1905. By December 31, 1918, the only countries adhering to the silver standard were Guatemala, Honduras, Salvador and China.

CHAPTER IV.

COINS AND CURRENCY.

Section 26. Coins of the United States.

The gold coins of the United States at present coined are the quarter eagle, the half eagle, the eagle and the double eagle. The gold dollar of twenty-five and eight-tenths grains, which is the standard of value, is no longer coined (since 1890). The weight of the larger gold coins is still regulated by the weight of this gold dollar.

The silver coins are the silver dollar of the weight of four hundred and twelve and a half grains; the half dollar of the weight of twelve and one-half grammes, and a quarter dollar and dime, or ten cent piece, of proportionate weight to the half dollar. The standard of fineness for both gold and silver coins is nine parts of pure metal to one part of alloy.

The minor coins are the five cent "nickel" and the copper cent.

Coins which have been coined in the past by the United States but have now been abandoned are the gold one dollar and three dollar pieces, the silver trade dollar, the silver twenty cent piece, the silver half dime, the silver three cent piece, the nickel three cent piece, the copper two cent piece, the large copper cent, and the copper half cent.

The Annual Report of the Secretary of the Treas-

ury recently contained the following information and statistics relative to the circulating currency of the United States:

“The paper circulation of the country returned to this office for redemption bears evidence of very rough usage. Inquiry and observation leads to the conclusion that its life of service is materially shortened by the great activity of business, and especially by one of the modern methods of handling money. The use of the ‘cash trolley’ in department stores not only mars the appearance but shortens the life of the notes and certificates. The paper currency is very much crumpled to get it into the small cash carrier; the wrinkles raise and disturb the surface, which soon wears away and weakens the tensile strength of the note; in a short time the note tears easily along the line of folding or wrinkling and portions become detached and are frequently lost. Such missing parts may result in loss to the owner by discount.

As a matter of economy the paper issues of the Government should be renewed before they are too badly worn. The facilities for transportation and redemption should be enlarged and the return of unfit currency to the Treasury in exchange for new encouraged by legislation that will equalize the expense and give better opportunities to the people in all sections of the country for making the exchange.

Congress has provided that the national banks shall bear the expense of transporting their circulating notes to the Treasury for redemption; this has done much to keep the bank circulation in good condition.

The Government issues a greater volume of paper

currency than the National banks, and it should do at least as much toward keeping it in good condition as it requires of the National banks.

It would be a wise and popular measure for the Government to bear the expense of transporting its unfit currency to the Treasury for redemption; and it can well afford to do this, for by the use of the registered mail, with the insurance feature attached, it would give equal opportunities to the people of all sections and reduce the expense. Banking institutions throughout the country are resorting to this method of transportation with satisfactory results. Can there be objection to the same use of the registered mail by the Government?

It is suggested that recommendation be made to Congress for legislation that will remove the limit on the value of a package that may be sent through the registered mail of the United States, and that will authorize the transportation of moneys to and from the Treasury or between Treasury offices by registered mail insured.

UNITED STATES NOTES.

The act of March 4, 1907, authorized the issue of United States notes of the denominations of \$1, \$2, and \$5 in lieu of equal amounts of such notes of higher denominations which shall be retired and canceled, provided, however, that the aggregate amount of United States notes at any time outstanding shall remain as at present fixed by law.

The amount of each denomination issued and redeemed during the year and the amounts outstand-

ing when the 1907 act was passed are recorded in the subjoined statement:

Denomination.	Outstanding June 30, 1906.	—Fiscal year 1907.—		Outstanding June 30, 1907.
		Issued.	Redeemed.	
One dollar	1,885,924	10,535	\$ 1,875,389	
Two dollars	1,433,029	11,860	1,421,369	
Five dollars	6,942,905	\$ 700,000	1,022,790	6,620,115
Ten dollars	276,348,681	104,320,000	96,910,975	283,757,706
Twenty dollars	21,285,452	3,719,190	17,566,262	
Fifty dollars	3,922,175	480,250	3,441,925	
One hundred dollars.....	7,259,850	1,035,600	6,224,250	
Five hundred dollars.....	7,744,000	630,000	7,114,000	
One thousand dollars.....	20,839,000	1,199,000	19,640,000	
Five thousand dollars.....	10,000		10,000	
Ten thousand dollars.....	10,000		10,000	
Total	\$347,681,016	\$105,020,000	\$105,020,000	\$347,681,016
Unknown, destroyed	1,000,000			1,000,000
Net	\$346,681,016	\$105,020,000	\$105,020,000	\$346,681,016

TREASURY NOTES OF 1890.

It is only a question of time when the Treasury notes will disappear from circulation under the provisions of law. The total amount issued for the purchase of silver bullion to November 1, 1893 (the date of the repeal of the act), was \$155,931,002.

The amount of each denomination redeemed during the year and the amounts outstanding at the close of two recent years may be studied in the table following:

Denomination.	Outstanding June 30, 1906.	Redeemed during fiscal year 1907.	Outstanding June 30, 1907.
One dollar	496,084	\$ 33,097	462,987
Two dollars	356,506	32,208	324,298
Five dollars	1,658,700	303,515	1,355,185
Ten dollars	2,792,210	601,800	2,190,410
Twenty dollars	1,364,250	266,180	1,098,070
Fifty dollars	31,750	5,100	26,650
One hundred dollars.....	361,500	49,100	312,400
One thousand dollars.....	325,000	107,000	218,000
Total	\$7,386,000	\$1,398,000	\$5,988,000

Standard silver dollars in equal amount are held in the trust funds for the redemption of the outstanding notes when presented.

GOLD CERTIFICATES.

The issue of certificates of the denomination of \$10 was authorized by the act of March 4, 1907, thereby increasing the resources of the Treasury for supplying the smaller denominations needed in marts of trade. The deposits or accumulation of gold coin in the Treasury determines the volume of gold certificates that may be issued, the provision of law being that gold coin equal in amount to the gold certificates outstanding shall be retained in the Treasury and held for the payment of such certificates on demand and used for no other purpose.

The amount of each denomination issued and redeemed during the year and the amounts outstanding when the 1907 act was passed are given in the annexed statement:

Denomination.	Outstanding June 30, 1906.	—Fiscal year 1907.—		Outstanding June 30, 1907.
		Issued.	Redeemed.	
Ten dollars		40,000	4,000	\$ 36,000
Twenty dollars	\$198,132,164	94,800,000	42,153,800	250,778,364
Fifty dollars	43,397,855	17,600,000	10,882,700	50,115,155
One hundred dollars.....	63,596,850	22,400,000	14,637,500	71,358,850
Five hundred dollars.....	15,739,000	5,100,000	3,774,000	17,065,000
One thousand dollars.....	59,684,500	11,500,000	9,838,000	61,346,500
Five thousand dollars.....	58,360,000	25,005,000	2,050,000	81,315,000
Ten thousand dollars.....	120,870,000	112,100,000	86,740,000	146,230,000
Total	\$559,779,869	\$288,545,000	\$170,080,000	\$678,244,869

SILVER CERTIFICATES.

The above legislation by Congress authorizing the issue of \$10 gold certificates and small denominations of United States notes will ultimately lead to the change of the entire volume of silver certificates into the smaller denominations, which heretofore the Treasury had not been able to supply. However, the progress of the movement is dependent upon the presentation of the larger denominations for redemp-

tion. When silver certificates of \$5 and above are redeemed they will be replaced by ones and twos until the demand for such denominations is supplied.

The amount of each denomination issued and redeemed during the year and the amounts outstanding at the close of two given years are seen in the statement following:

Denomination.	Outstanding June 30, 1906.	—Fiscal year 1907.—		Outstanding June 30, 1907.
		Issued.	Redeemed.	
One dollar	\$101,020,197	\$101,996,000	\$ 94,964,739	\$108,051,458
Two dollars	47,172,090	48,752,000	40,899,996	55,024,094
Five dollars	298,923,782	153,960,000	163,279,185	289,004,597
Ten dollars	16,851,411	.....	4,454,890	12,396,521
Twenty dollars	9,876,640	.....	2,041,090	7,835,550
Fifty dollars	2,484,960	.....	613,100	1,871,860
One hundred dollars.....	1,042,420	.....	135,000	907,420
Five hundred dollars.....	38,500	.....	3,000	35,500
One thousand dollars.....	63,000	.....	13,000	50,000
Total	\$477,473,000	\$304,708,000	\$306,404,000	\$475,777,000

CHANGES IN DENOMINATIONS.

The total amount of United States notes, Treasury notes of 1890, gold certificates and silver certificates of each denomination issued and redeemed during the year, and the amounts outstanding at the close of the two years are recorded in the table following:

Denomination.	Outstanding June 30, 1906.	—Fiscal year 1907.—		Outstanding June 30, 1907.
		Issued.	Redeemed.	
One dollar	103,402,204	\$101,996,000	\$ 95,008,371	110,389,833
Two dollars	48,961,626	48,752,000	40,943,564	56,769,762
Five dollars	307,525,387	154,660,000	164,605,490	297,579,897
Ten dollars	295,992,302	104,360,000	101,971,665	298,380,637
Twenty dollars	230,658,506	94,800,000	48,180,260	277,278,246
Fifty dollars	49,836,740	17,600,000	11,981,150	55,455,590
One hundred dollars...	72,260,120	22,400,000	15,857,200	78,802,920
Five hundred dollars...	23,521,500	5,100,000	4,407,000	24,214,500
One thousand dollars...	80,911,500	11,500,000	11,157,000	81,254,500
Five thousand dollars...	58,370,000	25,005,000	2,050,000	81,325,000
Ten thousand dollars...	120,880,000	112,100,000	86,740,000	146,240,000
Total	\$1,392,319,885	\$698,273,000	\$582,902,000	\$1,507,690,885
Unknown, destroyed....	1,000,000	.....	.....	1,000,000
Net	\$1,391,319,885	\$698,273,000	\$582,902,000	\$1,506,690,885

PAPER CURRENCY, BY DENOMINATIONS, OUTSTANDING SEPTEMBER 30, 1907.

The denominations of each kind of paper currency

outstanding when the Act of March, 1907, was passed were as follows:

Denomination.	United States notes.	Treasury notes of 1890.	National bank notes.
One dollar	\$ 1,871,505	454,832	344,249
Two dollars	1,228,558	316,698	184,708
Five dollars	8,316,350	1,294,480	118,596,700
Ten dollars	2,117,926	2,063,370	246,599,980
Twenty dollars	1,139,342	1,040,070	181,953,960
Fifty dollars	3,556,015	25,150	17,607,900
One hundred dollars.....	6,019,250	301,400	38,560,600
Five hundred dollars.....	6,814,000	.....	93,000
One thousand dollars.....	18,978,000	211,000	24,000
Five thousand dollars.....	10,000	.....	.....
Ten thousand dollars.....	10,000	.....	.....
Fractional parts .....	.....	.....	42,017
Total	\$347,681,016	5,707,000	\$ 603,987,114
Unknown, destroyed	1,000,000	.....	.....
Net	\$346,681,016	5,707,000	\$ 603,987,114

Denomination.	Gold certificates.	Silver certificates.	Total.
One dollar .....	.....	\$113,388,024	116,058,610
Two dollars .....	.....	57,065,598	58,965,572
Five dollars .....	.....	281,584,667	433,992,197
Ten dollars	\$ 45,435,240	11,544,421	565,790,937
Twenty dollars	259,559,124	7,401,510	466,694,006
Fifty dollars	50,545,155	1,776,860	73,311,140
One hundred dollars.....	70,188,850	877,420	115,947,520
Five hundred dollars.....	16,514,000	34,500	23,255,500
One thousand dollars.....	59,867,500	50,000	79,130,500
Five thousand dollars.....	80,710,000	.....	80,720,000
Ten thousand dollars.....	138,070,000	.....	138,080,000
Fractional parts .....	.....	.....	42,017
Total	\$720,889,869	\$473,723,000	\$2,151,987,999
Unknown, destroyed .....	.....	.....	1,000,000
Net	\$720,889,869	\$473,723,000	\$2,150,987,999

RATIO OF SMALL DENOMINATIONS TO ALL PAPER CURRENCY.

The variations in percentage of denominations of \$10 and less to the total paper currency, by fiscal years, for a 10-year period may be observed here:

Date.	Total paper currency.	—Denominations of \$10 and less.—				
		One dollar.	Two dollars.	Five dollars.	Ten dollars.	Total.
July 1, 1897.....	\$1,169,788,004	3.96	2.57	22.86	25.56	54.95
July 1, 1898.....	1,139,339,402	4.36	2.80	24.19	26.89	58.24
July 1, 1899.....	1,144,266,891	4.88	2.98	25.10	28.11	61.07
July 1, 1900.....	1,380,832,739	4.36	2.74	21.20	26.72	55.02
July 1, 1901.....	1,473,177,892	4.34	2.74	20.72	27.11	54.91
July 1, 1902.....	1,534,962,196	4.63	2.77	21.34	27.44	56.18
July 1, 1903.....	1,654,420,535	4.97	2.83	21.10	27.87	56.77
July 1, 1904.....	1,775,000,680	4.71	2.66	20.26	26.94	54.58
July 1, 1905.....	1,835,868,791	5.06	2.73	19.83	27.43	55.06
July 1, 1906.....	1,953,712,245	5.31	2.51	19.67	27.43	54.93
July 1, 1907.....	2,111,659,575	5.24	2.69	19.48	25.84	53.26
October 1, 1907.....	2,151,987,999	5.39	2.74	20.16	26.29	54.59

Section 27. Federal Statutes on the Coinage.

The Federal Statutes on the subject of the coinage are as follows:

STANDARD WEIGHT OF GOLD COINS.

Sec. 3513. The silver coins of the United States shall be one-dollar piece, which, at the standard weight of twenty-five and eight-tenths grains, shall be the unit of value; a quarter-eagle, or two and a half-dollar piece; a three-dollar piece; a half-eagle, or five-dollar piece; an eagle, or ten-dollar piece; and a double-eagle, or twenty-dollar piece. And the standard weight of the gold dollar shall be twenty-five and eight-tenths grains; of the quarter-eagle, or the two and a half-dollar piece, sixty-four and a half grains; of the three-dollar piece, seventy-seven and four-tenths grains; of the half-eagle, or five-dollar gold piece, one hundred and twenty-nine grains; of the eagle, or ten-dollar piece, two hundred and fifty-eight grains; of the double-eagle, or twenty-dollar piece, five hundred and sixteen grains.

STANDARD WEIGHT OF SILVER COINS.

Sec. 3513. The silver coins of the United States shall be a trade dollar, a half-dollar or fifty-cent piece, a quarter-dollar or twenty-five cent piece; a dime or ten-cent piece; and the weight of the trade dollar shall be four hundred and twenty grains troy; the weight of the half-dollar shall be twelve grams (grammes and one-half of a gram (gramme)); the quarter-dollar and the dime shall be, respectively, one-half and one-fifth of the weight of said half-dollar."

“An Act to authorize the coinage of the standard silver dollar, and restore its legal tender character.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there shall be coined at the several mints of the United States silver dollars of the weight of four hundred and twelve and a half grains troy of standard silver, as provided in the act of January eighteenth, eighteen hundred and thirty-seven, on which shall be the devices and superscriptions provided by said act. . . .

STANDARD OF FINENESS.

Sec. 3514. The standard for both gold and silver coins of the United States shall be such that of one thousand parts by weight nine hundred shall be of pure metal and one hundred of alloy. The alloy of the silver coins shall be of copper. The alloy of the gold coins shall be of copper or of copper and silver, but the silver shall in no case exceed one-tenth of the whole alloy.

DEVIATIONS FROM STANDARD FINENESS AND WEIGHT ALLOWED.

Sec. 3533. No ingots shall be used for coinage which differ from the legal standard more than the following proportions, namely: In gold ingots, one-thousandths; in silver ingots, three-thousandths.

* * ■ *

Sec. 3535. In adjusting the weights of the gold coins the following deviations shall not be exceeded in any single piece: In the double-eagle and the

eagle, one-half of a grain; in the half-eagle, the three-dollar piece, the quarter-eagle, and the one-dollar piece, one-fourth of a grain. And in weighing a number of pieces together, when delivered by the coiner to the superintendent and by the superintendent to the depositor, the deviation from the standard weight shall not exceed one-hundredth of an ounce in five thousand dollars, in double-eagles, eagles, half-eagles, or quarter-eagles, in one thousand three-dollar pieces, and in one thousand one-dollar pieces.

Sec. 3536. In adjusting the weight of the silver coins the following deviations shall not be exceeded in any single piece: In the dollar, the half and quarter-dollar, and in the dime, one and one-half grains. And in weighing [a] large number of pieces together, when delivered by the coiner to the superintendent and by the superintendent to the depositor, the deviations from the standard weight shall not exceed two-hundredths of an ounce in one thousand dollars, half-dollars, or quarter-dollars, and one-hundredth of an ounce in one thousand dimes.

COINS TO BE RESERVED FOR ANNUAL ASSAY.

Sec. 3539. At every delivery of coins made by the coiner to a superintendent it shall be the duty of such superintendent, in the presence of the assayer, to take indiscriminately a certain number of pieces of each variety for the annual trial of coins, the number for gold coins being not less than one piece for each one thousand pieces or any fractional part of one thousand pieces delivered; and for silver coins one piece for each two thousand pieces, or any fractional part of two thousand pieces delivered. The

pieces so taken shall be carefully sealed up in an envelope, properly labeled, stating the date of the delivery, the number and denomination of the pieces inclosed, and the amount of the delivery from which they were taken. These sealed parcels containing the reserved pieces shall be deposited in a pyx, designated for the purpose at each mint, which shall be kept under the joint care of the superintendent and assayer, and be so secured that neither can have access to its contents without the presence of the other, and the reserved pieces in their sealed envelopes from the coinage of each mint shall be transmitted quarterly to the mint at Philadelphia. A record shall also be kept at the same time of the number and denomination of the pieces so taken for the annual trial of coins, and of the number and denominations of the pieces represented by them and so delivered, a copy of which record shall be transmitted quarterly to the Director of the Mint. Other pieces may, at any time, be taken for such tests as the Director of the Mint shall prescribe.

CONSTITUTION OF COMMISSION.

Sec. 3547. To secure a due conformity in the gold and silver coins of their respective standards of fineness and weight, the judge of the district court for the eastern district of Pennsylvania, the Comptroller of the Currency, the assayer of the assay office of New York, and such other persons as the President shall, from time to time, designate, shall meet as assay commissioners, at the mint in Philadelphia, to examine and test, in the presence of the Director of the Mint, the fineness and weight of the coins re-

served by the several mints for this purpose, on the second Wednesday in February annually, and may continue their meeting by adjournment if necessary. If a majority of the commissioners fail to attend at any time appointed for their meeting, the Director of the Mint shall call a meeting of the commissioners at such other time as he may deem convenient. If it appears by such examination and test that these coins do not differ from the standard fineness and weight by a greater quality than is allowed by law, the trial shall be considered and reported as satisfactory. If, however, any greater deviation from the legal standard or weight appears, this fact shall be certified to the President; and if, on a view of the circumstances of the case, he shall so decide, the officers implicated in the error shall be thenceforward disqualified from holding their respective offices.

STANDARD OF WEIGHTS OF THE MINT.

Sec. 3548. For the purpose of securing a due conformity in weight of the coins of the United States to the provisions of this title, the brass troy-pound weight procured by the minister of the United States at London, in the year eighteen hundred and twenty-seven, for the use of the mint, and now in the custody of the mint at Philadelphia, shall be the standard troy pound of the mint of the United States, conformably to which the coinage thereof shall be regulated.

Sec. 3549. It shall be the duty of the Director of the Mint to procure for each mint and assay office, to be kept safely thereat, a series of standard weights corresponding to the standard troy pound of the Mint

of the United States, consisting of a one-pound weight and the requisite subdivisions and multiples thereof, from the hundredth part of a grain to twenty-five pounds. The troy weight ordinarily employed in the transactions of such mints and assay offices shall be regulated according to the above standards at least once in every year, under the inspection of the superintendent and assayer; and the accuracy of those used at the mint at Philadelphia shall be tested annually, in the presence of the assay commissioners, at the time of the annual examination and test of coins.

EXTRACT FROM THE REGULATIONS GOVERNING THE MINTS.

Art. 13. Taking of Coins for Annual Assay and for Special Assay and Accounting for the Same.

Sec. 1. The adjustment of the weight of single pieces of gold and silver coin shall be so performed as to satisfy the coiner that they are within the legal limits; and when a delivery of coin is made by that officer to the superintendent, the latter must, by the trial separately of not less than 5 pieces for each 1,000 pieces embraced in the proposed delivery, satisfy himself that the coins are within the legal limits as to weight.

Sec. 2. If these trials prove satisfactory, the delivery shall be made, and if not satisfactory, all the coins shall be weighed separately, and such as are not of legal weight shall be defaced and delivered to the melter and refiner.

Sec. 3. After the superintendent's trials are made, and in case they prove satisfactory, the assay

pieces shall be taken without selection or previous weighing, the number in the case of gold coin being 1 for each 1,000 pieces or any fractional part of 1,000 pieces delivered, and in that of silver coins 1 for each 2,000 pieces or any fractional part of 2,000 pieces.

Sec. 4. The whole number of assay pieces, so protected from attrition without special test of weight, shall, together with a certificate (Form 247), signed in good faith by the superintendent and assayer, then be sealed up by the superintendent in a large envelope, on which shall be inscribed the place of coinage, the date and number of delivery, number and denomination of the pieces inclosed, and the amount of the delivery from which taken.

Sec. 5. The sealed parcels shall be deposited in a pyx designated for the purpose at each mint, and which shall be kept under the joint care of the superintendent and the assayer and be secured so that neither can have access to its contents without the presence of the other.

Sec. 6. The reserved pieces, in their sealed envelopes, from the coinage of the mints at San Francisco, New Orleans, and Denver shall be transmitted quarterly by express to the mint at Philadelphia, where they shall be carefully preserved in a pyx, under the joint care of the superintendent and the assayer, for delivery to the annual assay commission.

Sec. 7. Records of these transactions shall be kept at each mint in books provided for the purpose, and a statement of the number of pieces in the deliveries and of the denomination of the same be transmitted monthly and quarterly (Form 125) to the Director of the Mint. A quarterly statement shall

be forwarded to the superintendent of the mint at Philadelphia by mail, and a copy shall also be inclosed in the box containing the coins. An annual consolidated statement shall be forwarded to the Director of the Mint at the close of the year.

Sec. 8. The proceeds of the assay coins shall, after their examination by the assay commission, be transferred from the proper accounts of the mints to which they belong to the mint at Philadelphia.

Sec. 9. From the first and two subsequent deliveries in each week of gold and silver coins of each denomination of coin delivered by the coiner, specimen pieces, two in number, shall be taken, certified, and inclosed by the superintendent and assayer in the same manner as above prescribed for trial by the annual assay commission, when they shall be promptly forwarded to the Director of the Mint by registered mail for assay by the assayer of the Bureau of the Mint.

Sec. 10. The value of the special assay coins shall be returned at the end of six months (June 30 and December 31) to the proper mints."

Section 28. The United States Mint.

The Mint of the United States was authorized by Congress in 1792 and began its operations in 1793. Up to 1873 the director of the mint was located at Philadelphia, but since that time at Washington. There are at present besides the parent mint at Philadelphia, three other mints operated by the United States, located at San Francisco, New Orleans and New York.

The working of the mint is thus described by

John H. Landis, superintendent United States Mint, Philadelphia, in an article in the "Americana":

"The processes of the mint can best be considered under the head of routine. The mint purchases at its counter all gold presented in value not less than \$100, providing the deposit is not too base for economical conversion into coin or fine bars. All deposits are made with the weight clerk at the weight room, who carefully weighs the same on the delicate balances, which are adjusted to show variations of one hundredth of a troy ounce. The weight is carefully recorded in the books of the weight clerk and registrar of deposits, together with the description of the bullion and the name of the depositor, both officers being present and carefully noting the same. The deposit is then locked in a copper box, and sent to the deposit melting room, where it is melted and cast in the form of a bar. From this bar the assayer cuts clips, weighing from eighteen to twenty one-hundredths of an ounce, two clips being taken, one from the upper side at one end, the other from the under side at the other end. These clips are assayed separately to determine the homogeneity of the metal. This assay determines the proportions of fine metal in the bar, and upon this assay the money value is determined and the depositor is paid. The loss of weight by melting is carefully noted and recorded. A slight allowance is made after melting to the melter and refiner and the weight so established becomes the true weight. As soon as the fineness of a day's deposits is reported by the assayer, they are delivered to the melter and refiner, and by that officer sent to the refinery, where the silver is separated from the

gold and the base metals eliminated wholly, only the precious metals being accounted for.

The next step in the conversion of bullion into coin is the assembling of the refined metal into 'melts' of about 3,000 ounces, to which sufficient copper is added to render the melted mass 900 parts fine, which is the standard fineness of United States gold and silver coin. When melted the metal is cast into ingots of the size proper for the production of the coin required. This alloy is rigidly tested by assay, and if found standard within the legal tolerance it is so declared, and the ingots are delivered to the coiner for conversion into coin. They are first taken to the rolls, 'broken down,' annealed, and delivered at the finishing rolls, where they are converted into coin strips of the requisite thickness for coin blanks. The strips are then taken to the cutting machines, where they are converted into coin blanks, which go to the selecting tables for the elimination of imperfect pieces and fragments. The accepted blanks are then sent to the adjusting room, where, if gold, each piece is weighed, the heavy pieces being reduced by filing and brought within the limit of legal tolerance. If the blanks be silver, they are passed through automatic selecting machines, which separates them into standards, heavies, lights, within tolerance and condemned lights. The blanks are next passed into a machine and 'upset' or 'milled,' which process so raises the edge of the piece as to protect the work on the stamped coin from abrasion. The blanks are then annealed, treated to a dilute sulphuric acid bath, and cleansed and brightened, and when thoroughly dried are ready for the coining presses. These presses are

automatically seized by conveyors and centered between the obverse and reverse dies within a collar a little exceeding the piece in diameter. These presses work automatically, the only hand action being to fill the feeding tubes. The impact of the dies, brought together by the operation of a toggle joint, forces the metal to flow to the full diameter of the dollar, which is grooved inside, and puts a fine reeding upon the edge of the coin. The finished coin is then automatically passed on, and is followed by others, the delivery for large coins being at the rate of 80 or 90 per minute. Dimes are struck at the rate of 100 and 120 per minute.

The standard, heavy and light coins are then separately counted by gauge and made into drafts of \$5,000 each, if gold, and drafts of \$1,000 each if silver. As the standard weight of gold drafts of \$5,000 is 268.75 troy ounces, the standard, heavy, and light coins are mingled in due proportion to make that standard weight, no greater variation than $1/1000$ of an ounce being allowed. The standard weight of \$1,000 in silver dollars is 859.375 ounces and of subsidiary silver 803.75 ounces, with a tolerance of $2/100$ of an ounce. The perfected drafts are then weighed in the presence of the superintendent, enclosed in canvas bags, and delivered to that officer. The mint balances are adjusted to the troy pound (5,760 grains), which is the mint unit of weight. This weight is a duplicate of the troy pound established by a royal commission in England in 1758, reaffirmed in 1838. It is kept in a special safe at the Philadelphia mint. In order to secure an exact conformity in weight and fineness of United States coin, a fixed

number of coins is taken from every delivery, sealed in the presence of the superintendent and the assayer, and deposited in a receptacle called the 'pyx,' each of those officers having a key, both keys being required to open the pyx. These reserved pieces await the assembling of the Assay Commission, annually appointed by the President to meet on the second Wednesday in February, when the pyx is opened and exhaustive tests of the weight and fineness of the contents are made."

Section 29. Value of Foreign Coins.

At the beginning of each quarter the Secretary of the Treasury proclaims the estimate by the Director of the Mint of the pure metal contents of foreign coins in terms of the money of account of the United States, to be followed in estimating the value of all foreign merchandise exported to the United States during the quarter, expressed in any such metallic currencies. It must be understood that it is not the exchange value of such coins, which fluctuates largely under such conditions as those brought about by the World War. The table that follows therefore represents the intrinsic value (approximately) of the foreign coins named, as given in a recent proclamation by the Secretary of the Treasury for the purpose mentioned above. In 1920 the money of almost all the European nations was greatly depreciated in exchange value as a result of the war.

COUNTRY.	Standard.	Monetary unit.	Value in terms of U. S. gold dollar.	Coins.
Argentina Republic	Gold	Peso	\$0.965	Gold: argentine (\$4.824) and $\frac{1}{2}$ argentine. Silver: peso and divisions.
Austria-Hungary	Gold	Crown	.203	Gold: 10 and 20 crowns. Silver: 1 and 5 crowns.
Belgium	Gold	Franc	.193	Gold: 10 and 20 francs. Silver: 5 francs.
Bolivia	Gold	Boliviano	.389	Gold: * Silver boliviano and divisions.
Brazil	Gold	Milreis	.346	Gold: 5, 10, and 20 milreis. Silver: $\frac{1}{2}$, 1, and 2 milreis.
British Possessions, N. A. (except Newfoundland). ..	Gold	Dollar	1.000	
Central American States—				
Costa Rica	Gold	Colon	.465	Gold: 2, 5, 10, and 20 colons (\$9.307). Silver: 5, 10, 25, and 50 centimos.
British Honduras	Gold	Dollar	1.000	
Guatemala	Gold			
Honduras	Silver	Peso	.375	Silver: peso and divisions.
Nicaragua				
Salvador	Gold	Peso	.365	Gold: escudo (\$1.825), doubloon (\$3.650), and condor (\$7.300). Silver: peso and divisions.
Chile				
		Amoy	.615	
		Canton	.613	
		Chefoo	.588	
		Chin Kiang ..	.600	
		Fuchan	.568	
		Hakwan	.625	
		(Customs) ..		
		Hankow	.575	
		Kiaochow	.596	
		Nankin	.508	
		Shuchwang ..	.576	
		Ningpo	.591	
		Peking	.599	
		Shanghai	.561	
		Swatow	.568	
		Takau	.618	
		Tientsin	.596	
		Hongkong	.404	
		British	.404	
		Mexican	.407	
			1.000	Gold: condor (\$9.647) and double-condor. Silver: peso.
Colombia	Gold	Dollar		Gold: 10 and 20 crowns.
Denmark	Gold	Crown	.268	Gold: 10 sucres (\$4.8665). Silver: sucre and divisions.
Ecador	Gold	Sucre	.487	Gold: pound (100 piasters), 5, 10, 20, and 50 piasters.
Egypt	Gold	Pound (100 piasters) ..	4.943	

Finland	Gold	Mark	193	Silver: 1, 2, 5, 10, and 20 plasters.
France	Gold	Franc	193	Gold: 20 marks (\$3.859), 10 marks (\$1.93).
German Empire	Gold	Mark	238	Gold: 5, 10, 20, 50, and 100 francs. Silver: 5 francs.
Great Britain	Gold	Pound sterling	4.868½	Gold: 5, 10, and 20 marks.
Greece	Gold	Drachma	193	Gold: sovereign (pound sterling) and ½ sovereign.
Haiti	Gold	Gourde	965	Gold: 5, 10, 20, 50, and 100 drachmas. Silver: 5 drachmas.
India [British]	Gold	Pound sterling†	4.868½	Gold: 1, 2, 5, and 10 gourdes. Silver: gourde and divisions.
Italy	Gold	Lira	193	Gold: sovereign (pound sterling). Silver: rupee and divisions.
Japan	Gold	Yen	498	Gold: 5, 10, 20, 50, and 100 lire. Silver: 5 lire.
Liberia	Gold	Dollar	1.000	Gold: 5, 10, and 20 yen. Silver: 10, 20, and 50 sen.
Mexico	Gold	Peso‡	498	Gold: 5 and 10 pesos. Silver: dollar\$ (or peso) and divisions.
Netherlands	Gold	Florin	402	Gold: 10 florins. Silver: 2½, 1 florin and divisions.
Newfoundland	Gold	Dollar	1.014	Gold: 2 dollars (\$2.028).
Norway	Gold	Crown	268	Gold: 10 and 20 crowns.
Panama	Gold	Balboa	1.000	Gold: 1, 2½, 5, 10, and 20 balboas. Silver: peso and divisions.
Persia	Silver	Kran	669	Gold: ½, 1, and 2 toman (\$3.406). Silver: ¼, ½, 1, 2, and 5 kran.
Peru	Gold	Libra	4.868½	Gold: ½ and 1 libra. Silver: sol and divisions.
Philippine Islands	Gold	Peso	500	Silver peso: 10, 20, and 50 centavos.
Portugal	Gold	Milreis	1.080	Gold: 1, 2, 5, and 10 milreis.
Russia	Gold	Ruble	515	Gold: 5, 7½, 10, and 15 rubles. Silver: 5, 10, 15, 20, 25, 50, and 100 copecks.
Spain	Gold	Peseta	193	Gold: 25 pesetas. Silver: 5 pesetas.
Straits Settlements	Gold	Pound sterling¶	4.868½	Gold: sovereign (pound sterling). Silver: dollar and divisions.
Sweden	Gold	Crown	268	Gold: 10 and 20 crowns.
Switzerland	Gold	Franc	193	Gold: 5, 10, 20, 50, and 100 francs. Silver: 5 francs.
Turkey	Gold	Plaster	1044	Gold: 25, 50, 100, 250, and 500 piasters.
Uruguay	Gold	Peso	1.034	Gold: peso. Silver: peso and divisions.
Venezuela	Gold	Bolivar	193	Gold: 5, 10, 20, 50, and bolivars. Silver: 5 bolivars.

NOTE.—The coins of silver-standard countries are valued by their pure silver contents, at the average market price of silver for the three months preceding the date of this circular.

‡ Gold standard adopted December 31, 1908, 12½ bolivianos equal the pound sterling or Peruvian pound (\$4.866½).

† The sovereign is the standard coin of India, but the rupee (\$0.3244½) is the current coin, valued at 15 to the sovereign.

‡ Seventy-five centigrams fine gold.

¶ Value in Mexico, \$0.498.

§ The current coin of the Straits Settlements is the silver dollar issued on Government account and which has been given tentative value of \$0.507758½.

CHAPTER V.

FUNCTIONS OF BANKING.

Section 30. The Functions of Banking.

The three great functions of banking are said to be those of deposit, discount, and issue. The other apparently distinct functions will be seen to fall under one of these three heads. Of the three functions, those of deposit and discount are indispensable to every true bank, while that of issue may be lacking. The relative importance of the three functions varies greatly under different banking systems. For example, under the English system, "discount" is considered of primary importance, and under the French system, "issue." The early American banks were little more than mere banks of issue, while at the present time the great majority of American banks do not issue notes at all.

Section 31. Deposit.

The early bankers were engaged in loaning their own money, and at the present time, every bank (whether National, State or Private) has a certain capital, with which it begins business, and portions of this, and of the accumulated surplus of the bank, are loaned out to various borrowers from the bank. A prosperous bank, however, loans out far more than

¹ For many matters closely connected with the subject of this chapter see Chapter IX on Methods and Machinery of Banking.

the amount of its capital and accumulated surplus, and this additional money is such money as has been left in its hands by others in the form of deposits. The greater portion of the profits of a modern bank is made from loaning out the money of others. In many cases the bank pays no interest to its depositors for the use of the money which it receives and then in turn loans out; in other cases it pays a low rate of interest to its depositors and then loans out the money at a higher rate. In most cases no interest is paid on checking accounts, and where interest is paid the bank has the right (not generally enforced except in cases of panics) to demand a notice of the intention to withdraw the money, a certain length of time ahead of the actual withdrawal of such money.

Section 32. Discount.

“Discount” is here used in its broad sense, including all loans by a bank.

“The borrower who procures a loan from a bank does so in order to provide himself with the means, either of making some purchase, or of paying some debt. He seeks, therefore, to obtain, not necessarily money, but a certain amount of purchasing power in available form, or of whatever may be the usual medium of payment, measured in terms of money.”²

A business house in such case will be most apt to seek to obtain such purchasing power by taking to the bank notes which have been received from their customers, but which are not yet due, and having these “discounted” by the bank. When a bank discounts a note, it, in general, merely credits the ac-

² Dunbar's “The Theory and History of Banking,” pp. 9-10.

count of the party for whom the discount is made with the proceeds of the note (or draft). A bank, in general, will only discount for their own depositors. In discounting, the bank charges "bank discount," instead of true interest.³ Instead of taking the note of another to the bank, a party may take his own note, and give security for its payment when due. The theory of the discount in this case is similar to that in the first case mentioned, except that in the latter case the party having the paper discounted is primarily liable to the bank for its payment, and in the former case only secondarily liable.

The effect of discounting a note is to turn personal credit into bank credit, in which form it becomes available as a medium of exchange.

"In order to make it readily available as a medium of exchange, personal credit has to be transformed into bank credit. Instead of using his own note as a medium of exchange, a business man will normally have it 'discounted' by his banker. If the note is for sixty days, for example, the business man yields the right to demand a specific amount of money from him in sixty days, in exchange for a deposit credit,—the right to receive on demand the same amount of money less the discount. The business man adds the note to his liabilities and a deposit to his assets. The bank adds the note to its assets and the deposit to its liabilities.

Having converted his personal credit into a bank deposit, the business man can now use it as a means of payment through the checking system that has been described. Ordinary commercial banking con-

³See Section 60.

sists, in a large part, of this purchase of personal credit and sale of banking credit. The bank builds up assets in the form of loans and discounts at the same time that it builds up its obligations in the forms of deposits.’”⁴

Section 33. The Checking System.

The checking system is not a distinct function of a bank, but a means of rendering its system of deposits and discounts effective, and as convenient for the public as possible. By means of the checking system it becomes possible to use deposits as currency. It is only through the introduction of the checking system that it has been possible to carry on the vast volume of modern business transactions with the existing supply of currency. Although it is impossible to obtain exact figures on the subject, it is probable that the aggregate payments made yearly in the country by checks greatly exceeds the aggregate by currency.

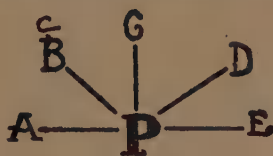
The working of the check system is thus explained by W. S. Jevons in his work on “Money and the Mechanism of Exchange,” the leading work on this subject:

SINGLE DRAFT SYSTEM.

“To obtain a clear notion of the way in which bankers help us to avoid the use of money as the medium of exchange, we must follow up the rise of the system from the simplest case to the complete development of the complex organization now existing in the United Kingdom. Let us imagine, in the

⁴ Ely's *Outlines of Economics*, pp. 247-8.

first place, that there is an isolated town having no appreciable dealings with other parts of the world, possessing only a single bank, in which each inhabitant has deposited all his money. If any person, a, then, wishes to make a payment to b, he need not go to his banker, draw out coin, and carry it to b, but may hand to b a cheque requiring the banker to pay the coins to b, if needed. But if b makes payments in the same way, he will not need to draw out any coin. It would be a mere formality for b to receive the coin due from a, and then pay it back over the counter to the credit of his account with the same banker. The payment is made by merely writing the sum of money to the debit of a's account, and to the credit of b's account. If b wishes to make another payment to c, a similar record in the banker's ledger will accomplish the business. However, many other traders, d, e, etc., there may be, their mutual transactions may be settled in the same way, without their seeing a single coin. We may represent this elementary banking organization by the following diagram,



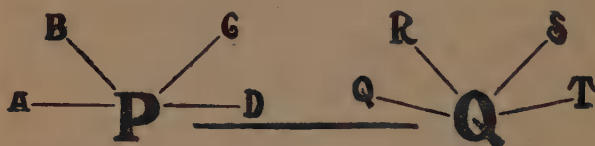
in which it is obvious that P represents the single banker, and a, b, c, d, e his customers. The deposit banks of Amsterdam and Hamburg form perfect illustration of this arrangement.

So long as we regard only the internal transactions of a town, then, a stationary amount of coin, lying untouched in the bank, will allow the whole to

be accomplished. If the traders never required to make payments to a distance the metallic money might be dispensed with altogether. But since any of the customers, a, b, c, d, e, etc., may want his money, the banker ought to keep at least as much as will meet possible demands.

SYSTEM OF TWO BANKS.

As a second case, let us suppose that there is a town which is able to support two banks. Some of the inhabitants keep their money in one bank and some in the other, but all whom it is requisite to consider have an account with one or the other. In the diagram, let P and Q be the two bankers, a, b, c, d



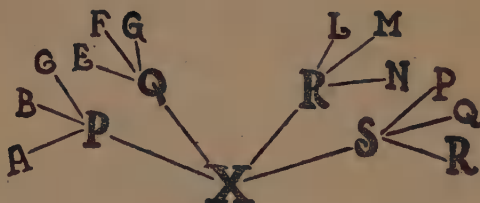
being the customers of P, and q, r, s, t customers of Q. Now, the mutual transactions of a, b, c, d will, as before, be balanced off in the books of P and similarly with the customers of Q. But if a has to make a payment to q, the operation becomes somewhat more complex. He draws a cheque upon P and hands it to q, who may, of course, demand coin from P. Not wanting coin, he carries the cheque to his own banker, Q, and pays it in to his account in place of coin. It is the banker, Q, who will now have to present the cheque upon P, and it might seem as if the use of coin would be ultimately required. There will be other persons, however, making payments in the town in the same manner, and the probability is

very great that some of these will result in giving P cheques upon Q, and some in giving Q cheques upon P. The two bankers then will be in the position of two traders before described who have a running account. At the worst the payment to be made in coin will be only the balance of what is due in opposite directions; but as this balance will probably tend in one direction one day, and in the opposite direction the next day, the balance need only be paid when it assumes inconvenient proportions.

COMPLEX BANK SYSTEM.

A large commercial town usually possesses several or many banks, each with its distinct body of customers. The mutual transactions of each body will, as before, be balanced off in the books of their common bank, but the larger part of the transactions will now be cross ones, resulting in a claim by one banker upon another. The probability is very great, indeed, that each banker will have to receive, as well as to pay, each day; but it does not follow that he will pay to the same as those who are going to pay to him. The complexity of relations becomes considerable; thus, among fourteen banks there are $14 \times 13 = 182$ or 91 different pairs which may have mutual claims, and among fifty banks there would be no less than 1,225 pairs. The result is that P might happen to have a considerable balance to pay to Q, and yet might be going to receive about the same sum from B or S. The actual carrying about of coin under such circumstances would be absurd, because a manifest extension of the book-credit system at once meets the

difficulty. The several banks need only agree to appoint, as it were, a bankers' bank to hold a portion of the cash of each bank, and then the mutual indebtedness may be balanced off just as when a bank acts for individuals. In the figure we see four banks, P, Q, R, S, each with its own body of customers, but brought into connection with each other by the bankers' bank X.



P need not now send a clerk to present bundles of cheques upon Q, R, S, but can pay them into the central bank X, where, after being placed to the credit of P, and sorted out, they will be joined to similar parcels of cheques from Q, R, S, and finally presented at the banks upon which they are drawn. Thus all the payments made by cheques will be effected without use of coin, just as if there were only a single bank in the town. What each bank has to pay each day will be usually balanced pretty closely by what it has to receive. Such balance as remains will be paid by a transfer in the books of X, the bankers' bank.

It is not precisely true that there is in any English town a bankers' bank, which thus arranges the payments between banks. The accountants' part of the work is carried out by an institution called the Clearing House,⁵ managed by a committee of bankers,

⁵ For a discussion of the workings of the Clearing House see section 63.

and the Bank of England is employed to hold the deposits of the bankers, and make transfers which close the transactions of each day.”⁶

A check is, in theory, a special form of an inland bill of exchange.⁷ If a check is paid, the drawer's account with the bank is reduced by the amount of the check. A certification of a check by a bank is a payment of the check so far as the drawer of the check is concerned. The bank has a credit for the amount of the check against the drawer, and the drawer against the payee. Upon the certification, the bank becomes the debtor of the holder of the check.

Section 34. Issue.

Some prominent writers on the subject of banking hold that “issue is the same, in all but form,”⁸ as the liability arising from deposits. For example, Dunbar in his work on “Banking” says on this point:

“A little consideration of the manner in which notes are issued by banks will show that in the bank-note we have only another form of liability, differing in appearance, but not in substance, from the liability for deposits. The bank-note is the duly certified promise of the bank to pay on demand, adapted for circulation as a convenient substitute for the money which it promises. It is issued by the bank and can be issued only to such persons as are willing to receive the engagement of the bank in this form instead of receiving money, or instead of being credited with a deposit. Thus the so-called borrower, who in the

⁶ Jevons on Money and the Mechanism of Exchange, pp. 252-7.

⁷ For legal questions relative to the rights and liabilities of the several parties to a check see the Volume on Commercial Law.

⁸ Dunbar on “The Theory and History of Banking,” p. 16.

first instance has been credited with a deposit and to whom the bank is therefore to this extent liable, may prefer to draw the amount in notes of the bank and to use them in making his payments. But, in this case, it is plain that the liability of the bank is changed only in form; it is still a liability to pay a certain sum of money on demand. And so if the depositor pays in money and receives notes, or receives notes in satisfaction of a demand of any kind against the bank, he, in fact, foregoes the use of the money itself and consents to receive in its stead a promise to pay upon demand, and to receive the evidence of that promise in the form of notes. The question, in which form he shall hold his right of demand against the bank, is one to be decided by the nature of his business or by his present convenience, but plainly the decision of this question in no way alters the relation between himself or any transferee of his right, on the one hand, and the bank on the other. The notes issued by a bank are thus a liability distinguishable in form only from its liability for deposits, and the functions of deposit and issue, spoken of at the opening of this chapter, instead of being distinct, as is often assumed, are one in substance.”⁹

While, however, “a little consideration” may support this view, a closer study will show striking distinctions between “issue” and the other functions of a bank. A depositor has become a creditor of the bank, intentionally, and as a result of a contract with the bank itself. The holder of a bank note has become a creditor of the particular bank, unconsciously, and as the result of a transaction with a third party.

⁹Id. pp. 16-17.

Ordinarily no person will take a check (except in payment of a pre-existing debt) without knowing something about the credit of the maker, or at least some indorser to such check. It is impossible for the average person to know anything personally about the business or standing of the particular bank, and, in fact, the average man today takes notes without paying any attention as to the bank issuing the same, or, in fact, without examining the notes received to see whether they are bank notes, treasury notes, or coin certificates. A check is received on the credit of the maker; a bank note, on the credit of the bank. The great difference between these different functions of banking is clearly recognized by the United States government, which makes special provision for the protection of the holders of National bank notes, and taxes State bank notes out of existence. On the other hand, there is no such interference with the deposits and checks of a State bank, and the depositors in a National bank are not given the protection by the National government which is given to the holders of National bank notes.

The truth is that the three functions of deposit, discount, and issue are distinct. The right to issue bank notes is not essential to the banking business. Since this right was taken away from the State banks (by the Federal ten per cent tax) these banks have become stronger and more prosperous. The issue of bank notes by the National bank has been becoming of less relative importance yearly. Many officials of National banks today think that this right to issue bank notes is of no very great importance to the National banks.

CHAPTER VI.

HISTORY OF BANKING.

Section 35. Early History of Banking.

In the history of certain ancient races, particularly in the history of the Babylonians, we find some accounts of rude and imperfect systems of banking. These systems, instead of being preserved and developed, passed away, and it was near the close of the Middle Ages before banks began to make their appearance in Europe. Banks may be said to have come into existence when the two functions of making loans and receiving deposits became united in the same person or institution. The forerunners of the banks as lenders of money were the private money loaners, principally the Jews (for a long period, in most European countries, all but the Jews were prohibited from receiving interest); and as receivers of deposits, the goldsmiths and silversmiths. It was the latter class rather than the former who generally produced the first bankers. In some instances, also, the money-changers developed into bankers. The name bank, in fact, is derived from the Italian word "banco," which means a bench, having reference to the benches which the early money-changers were accustomed to occupy in the public market-places.

The earliest bankers, in the modern understanding of the term, were Italians, and the first great bank was the famous Bank of Venice.

Section 36. The Bank of Venice.

As in the case of many other institutions and events connected with this strange city, the history of the Bank of Venice is shrouded in mystery. Even the date of its institution is placed all the way from 1171 to 1619, with probabilities favoring the earlier date or one close to it. The history of this bank, so far as it can be learned, is summed up as follows:

“Stephen Colwell’s digest of fourteen authorities leads to the following deductions, as will be seen by perusal of his able work:

It proves that there was a national bank of Venice founded on a loan of 2,000,000 ducats spent by the State in 1171, and the bank existed within the memory of living men a period of 626 years, during which time it was gradually enlarged over 700 per cent.

That in 1423 the 4 per cent interest previously paid was abolished.

That all promise of reimbursement, other than transfer of credit receipts, was abolished.

That no coin was kept as a specie basis of credit, or for strengthening the nation.

That no promise to pay any coin was made after 1423 for nearly 400 years of its continuance.

That the premium fixed by law of 20 per cent premium over the Venetian gold ducat, so celebrated for its fineness in export, was a real superiority of legal money of account over the commodity gold, and over gold currency.

That it was not dependent on any promise of con-

vertibility or redemption in gold, as no claim for any gold was acknowledged in the National Bank.

That it continued for nearly 400 years with all these extraordinary attributes, producing no financial derangements and no opposition; but, on the contrary, grew until it exceeded the money per capita of any nation in Europe, ancient and modern, and was the pride of Venice, the envy of Europe.

That it only fell when Napoleon conquered Venice, when it had reached an issue exceeding \$16,000,000 of government credit of money for 200,000 people, excluding the dependencies of Venice.”¹

Section 37. The Bank of Amsterdam.

The next bank whose history and methods need to be considered was the Bank of Amsterdam. This institution, which in many respects fails to answer to the modern definition of a bank, held the leading position among the financial institutions of Europe for nearly the whole of the seventeenth and eighteenth centuries.

For many years prior to the establishment of the Bank of Amsterdam, the financial importance of this city had tended to create large private banking institutions. Through a general misunderstanding of the fundamental principles governing the circulation of money, these private bankers were given the blame for the heavy premium on certain classes of money, and for the gradual disappearance of the better

¹ Encyclopedia of Social Reform and B. S. Heath in “Labor and Finance Revolution.” Dunbar gives a very different account of the history of this bank, but the weight of authority seems to be in favor of the account given.

species of money. The result was that in 1608 the business of private banking was prohibited in Amsterdam, under heavy penalties.

The following year the city completed its arrangements for going into the banking business itself, and the *Amsterdamsche Wisselbank*, or Amsterdam Exchange Bank, better known as the Bank of Amsterdam, was created by ordinance of January 31, 1609.

"The provisions of this ordinance were simple. It provided that any person might bring money or bullion for deposit and might withdraw at pleasure the money or the worth of the bullion, provided that deposits should not be made of less than 300 gulden in amount and should not include more than 3 per cent of small silver. The bank was also required to sell any kind of specie demanded of it, at as low a premium as possible. Deposits payable upon demand having been provided for and made transferable, the ordinance then required that all bills of exchange of 600 gulden or upwards should be paid through the bank, or, in other words, by the transfer of deposits or credits in bank. Deposits were exempted from seizure by process of law, and a commission of $\frac{1}{40}$ of one per cent on the amount deposited or paid out was prescribed to be paid to the bank. By a natural usage the transferable deposits or credits soon came to be known as 'bank money,' and were so called throughout the history of the bank."²

The Bank of Amsterdam was shut off from the ordinary profits of banking on account of the fact that it had no right to loan its deposits. In the case of this bank, the relation between the bank and a

² Dunbar's *Theory and History of Banking*, p. 99.

depositor was not one of debtor and creditor, but of bailee and bailor. It is evident that under such conditions the bank could not pay interest on the money deposited; on the contrary, it might make a charge for the opening and carrying of account. On account of the large mass of the business done, the profits to the city became very great.

The standard of the bank was the heavy Netherlands silver riksdalers. When other money, or light riksdalers, were deposited, the credit was given in terms of the standard riksdaler, and all transfers of bank credit, or bank money, were made in terms of such money. Gresham's law was meantime in operation in Amsterdam; the poorer money was driving out the better money, and before long the heavy riksdaler was entirely out of circulation. The result was that the "bank money" was now based upon a higher standard than that of the coinage actually in circulation, and consequently became at a premium. By 1622 this premium had risen above four per cent, and during the next one hundred and sixty-eight years it, in the main, remained at between four and five per cent.

An important departure was made by the bank in 1683. In this year a system of making advances upon deposits of coin was instituted. Under this system the depositor was given a credit nearly equal to the value of the coin deposited, and at the same time giving to the depositor a "recepisse," which certified that the depositor could withdraw the coin within six months by returning the money with which he had been credited, together with one-eighth of one per cent interest. The right of withdrawal

could be extended indefinitely by the payment of one-eighth of one per cent for each six months' period. Under this system the depositor had the use of his money (in fact, of better money) and still had the chance to "gamble" on the rise or fall in value of the kind of currency which he deposited.

The great importance of this departure in 1683 was in the effect which it had in hurrying on the inconvertibility of the "bank money."

About the beginning of the eighteenth century the bank ceased to redeem its credits by paying out coin. As a substitute for this, to keep up the credit of the bank, it adopted the policy of purchasing bank paper in the open market, through outside agents, when the premium fell below four and one-quarter per cent, and of selling it, in the same manner, when the premium rose above four and seven-eighths per cent. For nearly a century this proved sufficient to keep up the credit of the bank.

Finally, in 1790 and 1791, during the period of the French Revolution, suspicion began to point at this bank. From being at a premium, the "bank money" fell below par, and the city of Amsterdam made the proposition to redeem the paper at ninety per cent of its face value. This offer being rejected, it was found that the greater part of the specie which should have been in the vaults of the bank had been borrowed by the city, and that this misuse of the funds had been progressing for nearly a century and a half; the great secrecy employed in the management of the bank had enabled this state of affairs to go on so long undiscovered.

Although the city of Amsterdam took measure to

redeem the "bank money," and although several attempts were made to revive this bank in the early days of the nineteenth century, all proved unavailing, and the bank finally went out of existence in 1820. In the meantime the Bank of the Netherlands, constituted on the basis of a modern bank, had been created in 1814.

Section 38. The Origin of the Bank of England.

The history of the origin and early development of the Bank of England is thus related in Macaulay's History of England:

"The ingenious and enterprising Montague had a plan ready, a plan to which, except under the pressure of extreme pecuniary difficulties, he might not easily have induced the Commons to assent, but which, to his large and vigorous mind, appeared to have advantages, both commercial and political, more important than the immediate relief to the finances. He succeeded, not only in supplying the want of the State for twelve months, but in creating a great institution, which, after the lapse of more than a century and a half, continues to flourish, and which he lived to see the stronghold, through all vicissitudes, of the Whig party, and the bulwark, in dangerous times, of the Protestant succession.

In the reign of William old men were still living who could remember the days when there was not a single banking house in the city of London. So late as the time of the Restoration every trader had his own strong box in his own house, and when an acceptance was presented to him, told down the crowns and Caroluses on his own counter. But the increase

of wealth had produced its natural effect, the subdivision of labor. Before the end of the reign of Charles the Second a new mode of paying and receiving money had come into fashion among the merchants of the capital. A class of agents arose whose office was to keep the cash of the commercial houses. This new branch of business naturally fell into the hands of the goldsmiths, who were accustomed to traffic largely in the precious metals and who had vaults in which great masses of bullion could lie secure from fire and from robbers. It was at the shops of the goldsmiths of Lombard street that all the payments in coin were made. Other traders gave and received nothing but paper.

This great change did not take place without much opposition and clamor. Old-fashioned merchants complained bitterly that a class of men who, thirty years before, had confined themselves to their proper functions, and had made a fair profit by embossing silver bowls and chargers, by setting jewels for fine ladies, and by selling pistoles and dollars to gentlemen setting out for the Continent, had become the treasurers, and were fast becoming the masters of the whole city. These usurers, it was said, played at hazard with what had been earned by the industry, and hoarded by the thrift of other men. If the dice turned up well, the knave who kept the cash became an alderman; if they turned up ill, the dupe who furnished the cash became a bankrupt. On the other side of the conveniences of the modern practice were set forth in animated language. The new system, it was said, saved both labor and money. Two clerks seated in one county house did what, under the old

system, must have been done by twenty clerks in twenty different establishments. A goldsmith's note might be transferred ten times in a morning; and thus a hundred guineas, locked in his safe close to the Exchange, did what would have formerly required a thousand guineas, dispersed through many tills—some on Ludgate Hill, some in Austin Friars, and some in Tower street.

Gradually even those who had been loudest in murmuring against the innovation gave way, and conformed to the prevailing usage. The last person who held out, strange to say, was Sir Dudley North. When, in 1680, after residing many years abroad, he returned to London, nothing astonished or displeased him more than the practice of making payments by drawing bills on bankers. He found he could not go on 'Change without being followed round the piazza by goldsmiths, who, with low bows, begged to have the honor of serving him. He lost his temper when his friends asked him where he kept his cash. 'Where should I keep it,' he asked, 'but in my own house?' With difficulty he was induced to put his money into the hands of one of the Lombard street men, as they were called. Unhappily, the Lombard street man broke, and some of his customers suffered severely. Dudley North lost only fifty pounds; but this loss confirmed him in his dislike of the whole mystery of banking. It was in vain, however, that he exhorted his fellow citizens to return to the good old practice, and not to expose themselves to utter ruin in order to spare themselves a little trouble. He stood alone against the whole community. The advantages of the modern system were felt every hour

of every day in every part of London and people were no more disposed to relinquish those advantages for fear or calamities which occurred at long intervals than to refrain from building houses for fear of fires, or from building ships for fear of hurricanes. It is a curious circumstance that a man who, as a theorist, was distinguished from all the merchants of his time by the largeness of his views and by his superiority to vulgar prejudices, should, in practice, have been distinguished from all the merchants of his time by the obstinacy with which he adhered to an ancient mode of doing business long after the dullest and most ignorant plodders had abandoned that mode for one better suited to a great commercial society.

No sooner had banking become a separate and important trade, than men began to discuss with earnestness the question whether it would be expedient to erect a national bank. The general opinion seems to have been decidedly in favor of a national bank; nor can we wonder at this; for few were then aware that trade is in general carried on to much more advantage by individuals than by great societies, and banking really is one of those few trades which can be carried on to as much advantage by a great society as by an individual. Two public banks had long been renowned throughout Europe, the Bank of Saint George at Genoa, and the Bank of Amsterdam. The immense wealth which was in the keeping of those establishments, the confidence which they inspired, the prosperity which they had created, their stability, tried by panics, by wars, by revolutions, and found proof against all, were favorite topics. The Bank of Saint George had nearly com-

pleted its third century. It had begun to receive deposits and to make loans before Columbus had crossed the Atlantic, before Gama had turned the Cape, when a Christian Emperor was reigning at Constantinople, when a Mohomedan Sultan was reigning at Granada, when Florence was a republic, when Holland obeyed a hereditary Prince. All these things had been changed. New continents and new oceans had been discovered. The Turk was at Constantinople; the Castilian was at Granada; Florence had its hereditary Prince; Holland was a republic; but the Bank of Saint George was still receiving deposits and making loans. The Bank of Amsterdam was little more than eighty years old, but its solvency had stood severe tests. Even in the terrible crisis of 1672, when the whole Delta of the Rhine was overrun by the French armies, when the white flags were seen from the top of the Stadthouse, there was one place where, amidst the general consternation and confusion, tranquility and security were still to be found; and that place was the bank. Why should not the Bank of London be as great and as durable as the Banks of Genoa and Amsterdam? Before the end of the reign of Charles the Second several plans were proposed, examined, attacked and defended. Some pamphleteers maintained that a national bank ought to be under the direction of the King. Others thought that the management ought to be entrusted to the Lord Mayor, Aldermen, and Common council of the capital. After the Revolution the subject was discussed with an animation before unknown. For, under the influence of liberty, the breed of political projectors multiplies exceedingly. A crowd of plans,

some of which resembled the fancies of a child or the dreams of a man in a fever, were pressed on the government. Pre-eminently conspicuous among the political mountebanks, whose busy faces were seen every day in the lobby of the House of Commons were John Briscoe and Hugh Chamberlayne, two projectors worthy to have been members of that academy which Gulliver found at Lagado. These men affirmed that the one cure for every distemper of the State was a Land Bank. A Land Bank would work for England miracles such as had never been wrought for Israel, miracles exceeding the heaps of quails and the daily shower of manna. There would be no taxes; and yet the Exchequer would be full to overflowing. There would be no poor rates; for there would be no poor. The income of every landowner would be doubled. The profits of every merchant would be increased. In short, the island would, to use Briscoe's words, be the paradise of the world. The only losers would be moneyed men, those worst enemies of the nation, who had done more injury to the gentry and yeomanry than an invading army from France would have had the heart to do.

These blessed effects the Land Bank was to produce simply by issuing enormous quantities of notes on landed security. The doctrine of the projectors was that every person who had real property ought to have, besides that property, paper money to the full value of that property. Thus, if his estate was worth two thousand pounds, he ought to have his estate and two thousand pounds in paper money. Both Briscoe and Chamberlayne treated with the greatest contempt the notion that there could be an overissue of

paper as long as there was, for every ten-pound note, a piece of land in the country worth ten pounds. Nobody, they said, would accuse a goldsmith of over-issuing as long as his vaults contained guineas and crowns to the full value of all the notes which bore his signature. Indeed, no goldsmith had in his vaults guineas and crowns to the full value of all his paper. And was not a square mile of rich land in Taunton Dean at least as well entitled to be called wealth as a bag of gold or silver? The projectors could not deny that many people had a prejudice in favor of the precious metals, and that therefore, if the Land Bank were bound to cash its notes, it would very soon stop payment. This difficulty they got over by proposing that the notes should be inconvertible, and that everybody should be forced to take them.

The speculations of Chamberlayne on the subject of the currency may possibly find admirers even in our own time. But to his other errors he added an error which began and ended with him. He was fool enough to take it for granted, in all his reasonings, that the value of an estate varied directly as the duration. He maintained that, if the annual income derived from a manor were a thousand pounds, a grant of that manor for twenty years must be worth twenty thousand pounds, and a grant for a hundred years worth a hundred thousand pounds. If, therefore, the lord of such a manor would pledge it for a hundred years to the Land Bank, the Land Bank might, on that security, instantly issue notes for a hundred thousand pounds. On this subject Chamberlayne was proof even to arithmetical demonstration. He was reminded that the fee simple of land

would not sell for more than twenty years' purchase. To say, therefore, that a term of a hundred years was worth five times as much as a term of twenty years, was to say that a term of a hundred years was worth five times the fee simple; in other words, that a hundred was five times infinity. Those who reasoned thus were refuted by being told that they were usurers; and it should seem that a large number of country gentlemen thought the refutation complete.

In December, 1693, Chamberlayne laid his plan, in all its naked absurdity, before the Commons, and petitioned to be heard. He confidently undertook to raise eight thousand pounds on every freehold estate of a hundred and fifty pounds a year which would be brought, as he expressed it, into his Land Bank, and this without dispossessing the freeholder. All the squires in the House must have known that the fee simple of such an estate would hardly fetch three thousand pounds in the market. That less than the fee simple of such an estate could, by any device, be made to produce eight thousand pounds, would, it might have been thought, have seemed incredible to the most illiterate clown that could be found on the benches. Distress, however, and animosity had made the landed gentlemen credulous. They insisted on referring Chamberlayne's plan to a committee, and the committee reported that the plan was practicable and would tend to the benefit of the nation. But by this time the united force of demonstration and derision had begun to produce an effect even on the most ignorant rustics in the House. The report lay unnoticed on the table; and the country was saved from a calamity compared with which the defeat of Lan-

den and the loss of the Smyrna fleet would have been blessings.

All the projectors of this busy time, however, were not so absurd as Chamberlayne. One among them, William Paterson, was an ingenious, though not always a judicious, speculator. Of his early life little is known except that he was a native of Scotland, and that he had been in the West Indies. In what character he had visited the West Indies was a matter about which his contemporaries differed. His friends said that he had been a missionary; his enemies, that he had been a buccaneer. He seems to have been gifted by nature with fertile invention, an ardent temperament, and great powers of persuasion, and to have acquired somewhere in the course of his vagrant life a perfect knowledge of accounts.

This man submitted to the government, in 1691, a plan of a national bank, and his plan was favorably received both by statesmen and by merchants. But years passed away and nothing was done, till, in the spring of 1694, it became absolutely necessary to find some new mode of defraying the charges of the war. Then at length the scheme devised by the poor and obscured Scottish adventurer was taken up in earnest by Montague. With Montague was closely allied Michael Godfrey, the brother of that Sir Edmonsbury Godfrey, whose sad and mysterious death had, fifteen years before, produced a terrible outbreak of popular feeling. Michael was one of the ablest, most upright, and most opulent of the merchant princes of London. He was, as might have been expected from his near connection with the martyr of the Protestant faith, a zealous Whig. Some of his writings are still

extant, and prove him to have had a strong and clear mind.

By these two distinguished men Paterson's scheme was fathered. Montague undertook to manage the House of Commons, Godfrey to manage the City. An approving vote was obtained from the Committee of Ways and Means; and a bill, the title of which gave occasion to many sarcasms, was laid on the table. It was indeed not easy to guess that a bill, which purported only to impose a new duty on tonnage for the benefit of such persons as should advance money towards carrying on the war, was really a bill creating the greatest commercial institution that the world had ever seen.

The plan was that twelve hundred thousand pounds should be borrowed by the government on what was then considered as the moderate interest of eight per cent. In order to induce capitalists to advance the money promptly on terms so favorable to the public, the subscribers were to be incorporated by the name of The Governor and Company of the Bank of England. The corporation was to have no exclusive privilege, and was to be restricted from trading in anything but bills of exchange, bullion, and forfeited pledges.

As soon as the plan became generally known, a paper war broke out as furious as that between the swearers and the non-swearers, or as that between the Old East India Company and the New East Indian Company. The projectors who had failed to gain the ear of the government fell like mad men on their more fortunate brother. All the goldsmiths and pawnbrokers set up a howl of rage. Some dis-

contented Tories predicted ruin to the monarchy. It was remarkable, they said, that Banks and Kings had never existed together. Banks were republican institutions. There were flourishing banks at Venice, at Genoa, at Amsterdam and at Hamburg. But who had ever heard of a Bank of France or a Bank of Spain. Some discontented Whigs, on the other hand, predicted ruin to our liberties. Here, they said, is an instrument of tyranny more formidable than the High Commission, than the Star Chamber, than even the fifty thousand soldiers of Oliver. The whole wealth of the nation will be in the hands of the Tonnage Bank,—such was the nickname then in use; and the Tonnage Bank will be in the hands of the Sovereign. The power of the purse, the one great security for all the rights of Englishmen, will be transferred from the House of Commons to the Governor and Directors of the new company. This last consideration was really of some weight, and was allowed to be so by the authors of the bill. A clause was therefore most properly inserted which inhibited the bank from advancing money to the Crown without authority from Parliament. Every infraction of this salutary rule was to be punished by forfeiture of three times the sum advanced; and it was provided that the King should not have power to remit any part of the penalty.

The plan, thus amended, received the sanction of the Commons more easily than might have been expected from the violence of the adverse clamor. In truth, the Parliament was under duress. Money must be had, and could in no other way be had so easily. What passed when the House had resolved itself into

a committee cannot be discovered; but while the Speaker was in the chair no division took place.

The bill, however, was not safe when it had reached the Upper House. Some Lords suspected that the plan of a national bank had been devised for the purpose of exalting the moneyed interest at the expense of the landed interest. Others thought that this plan, whether good or bad, ought not to have been submitted to them in such a form. Whether it would be safe to call into existence a body which might one day rule the whole commercial world, and how such a body should be constituted, were questions which ought not to be decided by one branch of the Legislature. The Peers ought to be at perfect liberty to examine all the details of the proposed scheme, to suggest amendments, to ask for conferences. It was therefore most unfair that the law granted supplies to the Crown. The Jacobites entertained some hope that the session would end with a quarrel between the Houses, that the Tonnage Bill would be lost, and that William would enter on the campaign without money. It was already May, according to the New Style. The London season was over, and many noble families had left Covent Garden and Soho Square for their woods and hayfields. But summonses were sent out. The benches which had lately been deserted were crowded. The sittings began at an hour unusually early and were prolonged to an hour unusually late. On the day on which the bill was committed the contest lasted without intermission from nine in the morning till six in the evening. Godolphin was in the chair. Nottingham and Rochester proposed to strike out all the clauses which related to the Bank. Some-

thing was said about the danger of setting up a gigantic corporation which might soon give law to the King and the three Estates of the Realm. The whole scheme, it was asserted, was intended to enrich usurers at the expense of the nobility and gentry. Persons who had laid by money would rather put it into the bank than lend it on mortgage at moderate interest. Caermarthen said little or nothing in defence of what was, in truth, the work of his rivals and enemies. He owned that there were grave objections to the mode in which the Commons had provided for the public service of the year. But would their Lordships amend a money bill? Would they engage in a contest of which the end must be that they must either yield or incur the grave responsibility of leaving the channel without a fleet during the summer? This argument prevailed; and on a division, the amendment was rejected by forty-three votes to thirty-one. A few hours later the bill received the royal assent, and the Parliament was prolonged.

In the city the success of Montague's plan was complete. It was then at least as difficult to raise a million at eight per cent as it would now be to raise forty millions at four per cent. It had been supposed that contributions would drop in very slowly; and a considerable time had therefore been allowed by the Act. This indulgence was not needed. So popular was the new investment that on the day on which the books were opened three hundred thousand pounds were subscribed; three hundred thousand more were subscribed during the next forty-eight hours; and in ten days, to the delight of all the friends of the gov-

ernment, it was announced that the list was full. The whole sum which the corporation was bound to lend to the State was paid into the Exchequer before the first instalment was due. Somers gladly put the Great Seal to a charter framed in conformity with the terms prescribed by Parliament; and the Bank of England commenced its operations in the house of the Company of Grocers. There, during many years, directors, secretaries and clerks might be seen laboring in different parts of one spacious hall. The persons employed by the Bank were originally only fifty-four. They are now nine hundred. The sum paid yearly in salaries amounted at first to only four thousand three hundred and fifty pounds. It now exceeds two hundred and ten thousand pounds. We may therefore fairly infer that the incomes of commercial clerks are, on an average, about three times as large in the reign of Victoria as they were in the reign of William the Third.’³

Section 39. Later History of the Bank of England.

During the eighteenth century the capital of the Bank of England was several times increased to meet the demands of its growing business. In 1816 the amount of the capital had reached the total of £14,553,000, where it has since remained. In 1720 the Bank was engaged in a hard contest with the South Sea Company for the control of the business of refunding the national debt.

In 1742 the rather uncertain banking monopoly given in 1697 was defined as meaning that ‘no other Bank shall be erected, established or allowed by Par-

³ Macaulay’s History of England, Chapter XXI.

liament, and that it shall not be lawful for any Body Politick or Corporate whatsoever, erected or to be erected, or for any other Persons whatsoever, united or to be united, in Covenants or Partnership, exceeding the number of six Persons, in that Part of **Great Britain** called **England**, to borrow, owe, or take up, any Sum or Sums of Money on their Bills or Notes, payable at Demand, or at any less Time than six Months from the borrowing thereof, during the Continuance of such said Privilege to the said Governor and Company.'

This monopoly was thus confined to the function of issue, and was not an absolute one even in this field. The issuance of bank notes in England was finally regulated by the Bank Charter Act of 1844, known as Peel's Act, which renewed the Charter of the Bank of England.

"The act provided for the division of the Bank into two departments, the Issue Department and the Banking Department. The former was charged exclusively with the issue and redemption of notes; the latter was charged with the other functions of banking, including the ordinary business of discount and deposit; and in all dealings with each other the two departments were made as independent as if they belonged to distinct corporations. For all notes issued by it the Issue Department was required to hold either government securities, or coin or bullion; and the amount of securities which it could hold being limited by the original provision to £14,000,000, it followed that for all notes outstanding in excess of that amount it must have an equivalent in the pre-

cious metals. As experience had shown that the ordinary uses of the country never failed to require an amount of notes higher than £14,000,000, this provision insured the presence of coin or bullion for the redemption of all notes whose presentation for payment could be deemed morally possible, and made it unnecessary to fix any limit to the issue. The ordinary business of the Issue Department was then reduced to the automatic function of giving out notes for coin, or coin for notes, to whatever extent and from whatever quarter such exchange might be required.”⁴

Since the passage of this act the separation between the two departments of the Bank has been complete.

The limitation upon the amount of unsecured bank notes which could be issued by the Bank of England, while it firmly established the credit of these notes, was too rigid in its terms and has been disregarded or “suspended” on several occasions.⁵

The position of the Bank of England in England is one of great responsibility. It is more closely connected with the management of the public finances than any bank in America has ever been, and the maintenance of both public and private credit, in a great measure, falls upon this bank. In times of panic the situation of the Bank of England is the barometer of the condition of the country.

The Bank of England is pre-eminently a bank of deposit and discount. The function of issuing bank notes is of but very secondary importance.

⁴ Dunbar's *Theory and History of Banking*, pp. 198-9.

⁵ *E. g.* Oct. 25, 1847, Nov. 12, 1857, and May 12, 1866.

Section 40. Other English Banks.

All other English banks occupy a very subordinate position, both as to size and importance, as compared with the Bank of England. In respect to the functions of deposit and discount, the smaller banks are in no wise discriminated against by the law, but the field of issue is practically closed against them.

We have seen how in the eighteenth century the issue of notes was prohibited to any corporation except the Bank of England, or to any partnership with more than six members. In 1826 the right to issue bank notes was extended by Parliament to any bank situated more than sixty-five miles from London. This right was soon greatly restricted, for by Peel's act in 1844 it was provided that no bank, whether then in existence or not, which had not yet issued bank notes, should be allowed to issue more than the average amount outstanding for the twelve weeks preceding April 27, 1844. It was also provided by this act that whenever any bank authorized to issue bank notes should go out of business, or cease to issue bank notes, the Bank of England shall be authorized to add the amount of notes which such bank was authorized to issue to the amount which it may issue upon securities other than coin. Under this provision the amount of bank notes issued by English banks other than the Bank of England has been reduced from £8,648,853 in 1844 to £2,958,900 in 1900.

Section 41. Banking History of France.

The banking history of France differs very

greatly from that of England. The banking policy of the former country has been very much less conservative than that of the latter, and the function of issue has been relatively much more important. The present Bank of France is one authorized to exercise the three functions of deposit, discount, and issue, and where there is no provision for greater security for one class of liabilities than for another.

The Bank of France was established in 1800; the First Consul (Napoleon) was one of the stockholders, but the bank had no monopoly and no special privileges. In 1803, however, the bank was made the sole bank of issue, and in 1806 was placed under state control. At the time of the overthrow of Napoleon the bank was in a desperate financial condition. The restored Bourbons closed the branches of the bank which had been established and established other banks. In 1848 the Republic re-established the old monopoly.

The Bank of France was in poor condition from 1848 to 1852, but its business was greatly expanded from 1852 on. Almost at the very outset of the Franco-Prussian war the bank was authorized to suspend specie payments. The bank was mainly instrumental in enabling the French government to meet the heavy war indemnity, and partially as a reward for this its monopoly of issue has been ever since continued. It resumed specie payments in 1878. The bank has at present a large outstanding issue of notes, with no special security for their payment.

Section 42. The Reichsbank of Germany.

The last great national bank to be established, that of Germany, is thus generally described by Prof. Dunbar:

“In the system upon which German banking has been reorganized since 1875, of which the Reichsbank is the leading example, we have a further development of the conception of a note circulation resting upon a mixed basis of securities and specie, but with the important change that the law contents itself with requiring the maintenance of this basis, without specially pledging it for the payment of the notes. The German system is then one of securing the notes by salutary regulation, rather than by the actual devotion of specific property, either in the hands of the government, as under the national banking system of the United States, or left in the charge of the bank itself, as in the case of the Bank of England.”

The Reichsbank has nearly but not quite a monopoly of issue, seven independent banks still possessing the right, to a limited extent. The function of issue is much more important in German banks than in those of England or America.

* Dunbar's Theory and History of Banking, p. 228.

CHAPTER VII.

HISTORY OF AMERICAN BANKING.

Section 43. Colonial Banks.

Banks began to make their appearance in the American colonies early in the eighteenth century, the first banks being chartered in Massachusetts and Rhode Island in 1715. Before the Revolutionary War, banks were in existence in nearly all the colonies. All of the colonial banks were of the character known as the "loan bank," and were organized and conducted upon the assumption that the main purpose of a bank was to issue paper money.

"To take one of the most perfect specimens, which enjoyed the approval of Franklin, and which was made in Pennsylvania in 1723, the plan was as follows: The issue was for £15,000, put in the hands of commissioners in each county, according to the taxable assessment. The commissioners loaned the bills at five per cent on mortgage of land. The loan was for sixteen years, payable one-sixteenth annually, and the interest was to defray the expenses of government. Instalments repaid during the first ten years of the period were to be loaned out against only for the remainder of the period."¹

Various variations of this form of bank were organized as "Land Banks" or "Specie Banks," but

¹ Sumner's History of American Currency, p. 19.

the issue of paper money was the main business of all. Whenever a colony began to become conservative on the question of issuing bills of credit, this was generally balanced by still greater issues by the banks of that State.

Section 44. The Bank of North America, and Early State Banks.

At the outset of the Revolutionary period there existed no proper banking facilities in the United States. To remedy this state of affairs and to aid in the financing of the Revolutionary War, the Bank of North America was chartered on December 31, 1781. This bank, which had a capital of \$400,000, had its origin in an organization of Philadelphia citizens formed for the purpose of supplying the army with food and supplies purchased for the government, and bills drawn upon American ministers abroad were deposited with the bank as security for such advances. It should be mentioned in this connection that for several years during this period the chief business of the American ministers abroad consisted in attempting to borrow money, either from foreign governments or from individuals. The Bank of North America proved very profitable and, in spite of many vicissitudes, is still in existence today. At the close of the Revolutionary War there were only two other banks in existence in the United States.

“Massachusetts followed Pennsylvania very closely in the establishment of banks, for within two months after the Bank of North America opened in Philadelphia, the State of Massachusetts granted it an act of incorporation. This was on March 8, 1782.

The success of this institution led, two years later, to the organization of the Massachusetts Bank, which received its charter from the legislature on February 7, 1784. This was the first local bank established in that State, and the second in the United States. Its capital was limited to \$300,000, of which \$253,500 had been paid in when it commenced business on July 5 of that year.

Up to 1799 but five banks had been incorporated. In that year a general law was enacted prohibiting the establishment of unincorporated associations, or the further issue, except by the Nantucket Bank, of notes of a less denomination than \$5. In 1803 an act was passed requiring the banks to make semi-annual returns of their condition to the governor and council, to be signed by the directors; and by an act of 1805 were required to be sworn to. The returns made in June, 1805 showed sixteen banks then in operation, with an authorized capital of \$5,760,000, of which \$5,460,000 had been paid in. From this time to 1811 but one other bank was chartered. * * * *

The Bank of New York began doing business in 1784, under articles of association drawn by Alexander Hamilton, who was a member of the first board of directors. This bank was chartered by the legislature March 21, 1791, and was the first bank in the State organized under legislative sanction, and the third bank in the United States. It was organized with a capital of \$900,000, in shares of \$500 each. The State subsequently subscribed for 100 shares, making the capital \$950,000, and the bank commenced business on May 2, 1791. In 1832 the capital was increased to \$1,000,000 by a State subscription of \$50,-

000, \$15,000 of which was for the use of common schools, \$20,000 for Union College, and \$15,000 for Hamilton College. On May 1, 1852, it was reorganized as a free bank, under the general laws of the State, with a capital of \$2,000,000. On January 6, 1865, it became a national bank. * * * * Between the date of incorporation of the Bank of New York and of the declaration of war with Great Britain on June 11, 1812, nineteen banks were chartered by the legislature, with an authorized capital of \$18,215,000.'"²

Section 45. The First United States Bank.

The first Bank of the United States was chartered by Congress in 1791. This bank differed very greatly from a National bank under the present banking system. The first bank had the advantage of being the sole bank chartered by the government, and of being closely connected with the Federal government as its financial representative. The United States owned \$2,000,000 worth of stock out of a total capitalization of \$10,000,000. Of the remaining \$8,000,000 of stock, which was owned by private individuals, \$6,000,000 was paid for in government obligations, and \$2,000,000 in money. This bank was authorized to issue bills of credit, which were made full legal tender for all obligations due to the government. The bank paid coin when it was demanded, but its notes, being always received by the government, were generally acceptable to the public. The bank had branches in various parts of the country; and as the United States at this time had no sub-treasuries,

² Annual Report of Comptroller of the Currency for 1876..

such branches became the depositories of United States funds.

The first Bank of the United States was very profitable during its whole existence, and aroused the jealousy of the State banks of which there were nearly a hundred in existence when the Charter of the Bank of the United States expired in 1811. Mainly through the efforts of the State banks, the efforts of the Bank of the United States to obtain a renewal of its charter were defeated, and the bank went out of existence in 1811.

Section 46. Banking During the War of 1812.

Wildcat methods of banking had come into use by the State banks near the beginning of the nineteenth century. Before 1805 no bank notes were allowed for sums under \$5, but shortly after that period they began to be issued for sums as low as 25 cents. Metal coins, of course, were rapidly driven out of circulation. Matters grew even worse after the Bank of the United States went out of existence. The circulation of the banks of the country at this time (1811) was estimated by Gallatin at \$46,000,000. An attempt to remedy existing conditions in New England in 1813, by the creation of the New England Bank at Boston, as a bank of redemption for the purpose of keeping the bank of the adjoining territory at par, was the beginning of the "Suffolk Bank System." The success of this system was shown by the fact that the New England banks were the only banks in the country which were not forced to suspend specie payment the following year.

The financial condition of the country went rap-

idly from bad to worse during the War of 1812. The country was flooded both with State bank notes and treasury notes. By 1816 the State bank notes had reached the total of nearly \$100,000,000. An attempt was made to remedy the existing evils by the creation of a second United States bank.

Section 47. Second United States Bank.

The second United States Bank was chartered in 1816 and was opened January 1, 1817.

“On the 10th of April, 1816, a bill was approved by President Madison, which was the second and last charter of the bank granted by the General Government. The plan proposed by Mr. Dallas was modeled upon the charter of the first United States bank, and the act of incorporation, as finally passed, did not differ materially from the plan proposed by him. The charter was limited to twenty years, expiring on March 3, 1836. The capital was fixed at \$35,000,000, \$7,000,000 of which was to be subscribed by the Government, payable in coin, or in stock of the United States bearing interest at five per cent and redeemable at the pleasure of the Government. The remaining stock was to be subscribed for by individuals and corporations, one-fourth being payable in coin and three-fourths in coin or in the funded debt in the United States. Five of the directors were to be appointed by the President, and all of them were required to be resident citizens of the United States, and to serve without compensation. The amount of indebtedness, exclusive of deposits, was not to exceed the capital of the bank.

The directors were empowered to establish

branches, and the notes of the bank, payable on demand, were receivable in all payments to the United States. The penalty for refusing to pay its notes or deposits in coin, on demand, was twelve per cent per annum until fully paid. The bank was required to give the necessary facilities, without charge, for transferring the funds of the Government to different portions of the Union, and for negotiating public loans. The moneys of the Government were to be deposited in the bank and its branches, unless the Secretary of the Treasury should otherwise direct. No notes were to be issued of a less denomination than \$5, and all notes smaller than \$100 were to be made payable on demand. The bank was not, directly nor indirectly, to deal in anything except bills of exchange, gold or silver bullion, goods pledged for loans, or of the proceeds of its lands. No other bank was to be established by authority of Congress during the continuance of the corporation, except such as might be organized in the District of Columbia, with an aggregate capital not exceeding \$6,000,000; and in consideration of all the grants of the charter, the bank was to pay to the United States a bonus of \$1,500,000, in three annual instalments."³

Great difficulties were experienced by the bank in securing the necessary specie with which to commence business.

"It began business with \$1,400,000 in specie, \$14,000,000 in stocks, and the rest in stock notes. It was to have a capital of \$7,000,000. A second instalment of \$2,800,000 was soon due, but only \$32,400 was paid in specie, the rest mainly from notes or discounts of

the bank itself. The third instalment was still worse. The bank discounted its own stock at par to pay the instalment. In August, 1817, the facilities for stock-jobbing were used. Congress resolved that after February 20, 1817, only specie, treasury notes, and notes of specie-paying banks ought to be taken by the national treasury. The banks refused to resume before July, 1817. The Western banks were still comparatively sound. The Southern banks had become inflated. The inflation was increased during the year by the Government paying off \$11,000,000. By March, 1818, the discounts of the United States Bank were \$43,000,000—\$11,000,000 on stocks. It had \$2,000,000 in specie. It had now eighteen branches, but only \$3,000,000 of specie in them all. Its operations in the West drew that region into the 'golden' age. The bank now bought \$7,000,000 bullion in the West Indies. Fifteen months after it was started it was doubtful if the bank was solvent. In November, Congress appointed a committee of investigation, which reported unfavorably; but Congress would not respond, forty members being stockholders. The bank now took energetic measures to save itself, and in seventy days was solvent, but had ruined the community. In August, 1819, there were 20,000 seeking work in Philadelphia, and a similar state of things existed in other cities. Land in Pennsylvania was worth, in 1809, \$38 per acre; in 1815, \$150; in 1819, \$35. The note circulation of the country in 1812 was about \$45,000,000; in 1817, \$100,000,000; in 1819, \$45,000,000. Financial distress was general and lasted until 1823. Money was plentiful in the hands of those who had no debts to pay, as they would not invest. In 1823 the circulation of the

United States Bank was very low—\$4,081,842; but there was a great creation of banks, and the bank began to expand and receive the notes of all its branches.”⁴

The constitutionality of the act of Congress creating this bank was denied by a large class in the community, but was upheld by the Supreme Court of the United States in the case of *McCulloch vs. Maryland*,⁵ the decision in which case was in part as follows:

“Among the enumerated powers, we do not find that of establishing a bank or creating a corporation. But there is no phrase in the instrument which, like the articles of confederation, excludes incidental or implied powers; and which requires that everything granted shall be expressly and minutely described.
* * * *

Although, among the enumerated powers of government, we do not find the word ‘bank’ or ‘incorporation,’ we find the great powers to lay and collect taxes; to borrow money; to regulate commerce; to declare and conduct war; to raise and support armies and navies. The sword and the purse, all the external relations, and no inconsiderable portion of the industry of the nation are intrusted to its government. It can never be pretended that these vast powers draw after them others of inferior importance, merely because they are inferior. Such an idea can never be advanced. * * * *

The creation of a corporation, it is said, appertains to sovereignty. This is admitted. But to

⁴ *Encyclopædia of Social Reform.*

⁵ 4 Wheaton, 316.

what portion of sovereignty does it appertain? Does it belong to one more than to another? In America, the powers of sovereignty are divided between the government, of the Union, and those of the States. They are each sovereign, with respect to objects committed by it, and neither sovereign with respect to the objects committed to the other. * * * *

That a corporation must be considered as a means not less usual, not of higher dignity, not more requiring a particular specification than other means, has been sufficiently proved. If we look to the origin of corporations, to the manner in which they have been framed in that government from which we have derived most of our legal principles and ideas, or to the uses to which they have been applied, we find no reason to suppose that a constitution, omitting, and wisely omitting, to enumerate all the means for carrying into execution the great powers vested in government, ought to have specified this. Had it been intended to grant this power as one which should be distinct and independent, to be exercised in any case whatever, it would have found a place among the enumerated powers of the government. But being considered merely as a means, to be employed only for the purpose of carrying into execution the given powers, there could be no motive for particularly mentioning it.

The propriety of this remark would seem to be generally acknowledged by the universal acquiescence in the construction which has been uniformly put on the third section of the fourth article of the Constitution. The power to 'make all needful rules and regulations respecting the territory of other

property belonging to the United States' is not more comprehensive than the power 'to make all laws which shall be necessary and proper for carrying into execution' the powers of the government. Yet all admit the constitutionality of a territorial government, which is a corporate body.

If a corporation may be employed indiscriminately with other means to carry into execution the powers of the government, no particular reason can be assigned for excluding the use of a bank, if required for its fiscal operations. To use one must be within the discretion of Congress, if it be an appropriate mode of executing the powers of government. That it is a convenient, a useful, and essential instrument in the prosecution of its fiscal operations, is not now a subject of controversy. All those who have been concerned in the administration of our finances have concurred in representing its importance and necessity; and so strongly have they been felt that statement of the first class, whose previous opinions against it had been confirmed by every circumstance which can fix the human judgment have yielded those opinions to the exigencies of the nation. Under the confederation, Congress justifying the measure by its necessity, transcended, perhaps, its powers to obtain the advantage of a bank, and our own legislation attests the universal conviction of the utility of this measure. The time has passed away when it can be necessary to enter into any discussion in order to prove the importance of this instrument as a means to effect the legitimate objects of the government.

But were its necessity less apparent, none can deny its being an appropriate measure; and if it is,

the degree of its necessity, as has been very justly observed, is to be discussed in another place. Should Congress, in the execution of its powers, adopt measures which are now prohibited by the Constitution; or should Congress, under the pretext of executing its powers, pass laws for the accomplishment of objects not intrusted to the government, it would become the painful duty of this tribunal, should a case requiring such a decision come before it, to say that such an act was not the law of the land. But where the law is not prohibited, and is really calculated to effect any of the objects intrusted to the government, to undertake here to inquire into the degree of its necessity would be to pass the line which circumscribes the judicial department, and to tread on legislative ground. This court disclaims all pretensions to such a power.

After this declaration, it can scarcely be necessary to say that the existence of State banks can have no possible influence in the question. No trace is to be found in the Constitution of an intention to create a dependence of the government of the Union on those of the States, for the execution of the great powers assigned to it. Its means are adequate to its ends; and on those means alone was it expected to rely for the accomplishment of its ends. To impose on it the necessity of resorting to means which it cannot control, which another government may furnish or withhold, would render its course precarious, the result of its measures uncertain, and operate a dependence on other governments which might disappoint its most important designs, and is incompatible with the language of the Constitution. But were it

otherwise, the choice of means implies a right to choose a National bank in preference to State banks, and Congress alone can make the election.

After the most deliberate consideration, it is the unanimous and decided opinion of this court that the act to incorporate the Bank of the United States is a law made in pursuance of the Constitution, and is a part of the supreme law of the land."

By 1827 the United States Bank was on a sound basis and the country was prosperous, but shortly afterwards the famous battle between President Jackson and the bank began. The grounds for the contest were political rather than financial, and the subject need only be referred to in this place. President Jackson began the contest by an attack on the bank in his annual message of 1829. In 1832 the United States Bank petitioned for a renewal of its charter, although its present charter did not expire until 1836. A bill renewing the charter passed both houses of Congress, but was vetoed by President Jackson. Later, Jackson attempted to destroy the bank, even before its charter expired, by attacking the solvency of the bank in a message to Congress, and by ordering the Secretary of the Treasury to withdraw the public deposits from the bank. Upon the refusal of Mr. Doane, then Secretary of the Treasury, to make such removal, he was removed from office by President Jackson, who then appointed Mr. Taney (afterward Chief Justice of the Supreme Court of the United States) to this position. Mr. Taney carried out the instructions of his chief and ordered the United States collectors to deposit all future funds with designated State banks. The

funds with the United States Bank remained in its custody until paid out in the ordinary course of business. In this connection the United States Senate passed a resolution (28 to 18) declaring that the President had exceeded his constitutional powers. The United States Bank was accused of later trying to bring on a panic, in revenge. It went out of existence as a United States bank in 1836. No similar bank has since been created.

Section 48. The Panic of 1837.

On July 11, 1836, President Jackson issued the "Specie Circular," which ordered agents for the sale of public lands to accept payment in specie only. Congress passed an act regarding this order, which failed to become a law on account of the refusal of the President to sign it. The effect of the "Specie Circular" was to discredit the State bank notes, which had become the principal circulating medium of the country. This, coupled with the overspeculation of the few preceding years, brought on the panic of 1837.

During 1837 nearly all the banks in the country suspended payment. The following year times improved and most of the banks resumed payment. In 1839 the United States Bank (since 1836 doing business under a charter from the State of Pennsylvania) failed, and carried with it most of the banks of the South and West. Out of the eight hundred and fifty banks in the United States, three hundred and forty-three closed entirely, and sixty-two more, partially. The creditors and circulating notes of the United

States Bank were ultimately paid in full, but the stockholders suffered a total loss.

In 1840 the public funds were withdrawn as banking capital, by the passage of the Independent Treasury Act, which gave the United States the custody of its own funds. In New York and New England, measures had been taken by this time to maintain the value of the bank notes. The Suffolk Bank system in New England was an arrangement by which the Suffolk Bank was used as a channel through which all bank notes, issued by any New England bank, which reached Boston were forwarded to the bank which issued them, for redemption.

The New York Safety-Fund System contained the same underlying principle as that found in the present National Banking Act. Under this system each bank issuing notes was required to deposit with the banking department of the state securities consisting of Federal or State stocks, or bonds and mortgages, which, in case of the failure of the bank, were to be sold and the proceeds applied to the payment of its notes.

“The free banking system of New York was authorized on April 13, 1838. Under its provisions any number of persons was authorized to the liabilities to form banking associations upon the terms and conditions and subject to the liabilities of the act. The law originally provided that such United States or any State stock which should be, or be made, equal to a five per cent stock, or bonds and mortgages on improved and productive real estate worth, exclusive of the buildings thereon, double the amount secured by the mortgage, and bearing interest at not

less than six per cent per annum, should receive from the Comptroller of the State an equal amount of circulating notes. Previous to the year 1843, twenty-nine of these banks, with an aggregate circulation of \$1,233,374 had failed; and their securities, consisting of stocks and bonds and mortgages, amounting to \$1,555,338, were sold for \$953,371, entailing a loss of \$601,966. The avails of the securities were sufficient to pay but seventy-four per cent of the circulation alone. The losses to the billholders occurred only in the case of those banks which had deposited State stocks other than those of New York. The law was thereupon so amended as to exclude all stocks except those issued by the State of New York, and to require these to be made equal to a five per cent stock. An amendment in 1848 required that the stocks deposited should bear six per cent interest instead of five, and that the bonds and mortgages should bear interest at seven per cent, and should be on productive property and for an amount not exceeding two-fifths of the value of the land covered by them. Subsequently on April 10, 1849, the law was again so amended as to require that at least one-half of the securities so deposited should consist of New York State stocks, and that not more than one-half should be in the stocks of the United States, the securities in all cases to be, or to be made, equal to a stock producing an interest of 6 per cent per annum, and to be taken at a rate not above their par value and at not more than their market value.

The banks were under the supervision of a commissioner appointed under the safety-fund act until the year 1843, in which year they were required to

report to the State comptroller; but in 1851 the present office of bank superintendent was established.

In 1840 a law was passed requiring the banks of New York to redeem their notes at an agency of the bank, either in New York City, Albany, or Troy, at one-half of one per cent discount. This discount was reduced in 1851 to one-fourth of one per cent. After the passage of this act two of the principal banks in the city of New York inaugurated a plan of redemption similar to the Suffolk system. The notes of such associations as kept a deposit with them were returned to the banks of issue, and the discount of one-fourth of one per cent was divided between the redemption agent and the associations whose notes were redeemed. Those banks which did not provide the means for redemption were forced to close up their affairs."⁶

"After the New York free-banking law had been perfected by various amendments, and subsequent to 1850, a number of the States, among which were Massachusetts, Vermont, Connecticut, New Jersey, Ohio, Indiana, Illinois, Wisconsin, Tennessee, Virginia and Louisiana, adopted the system which had proved so satisfactory in New York. The Massachusetts and the Louisiana acts, in addition to the many excellent features of the New York act, required an ample reserve to be kept on hand, and also contained other restrictions, which were subsequently embodied in the National bank act. In nearly all the States which adopted the free-banking system charters for banks were still granted which authorized the issue of circulating notes without security and in excess of

⁶ Annual Report of Comptroller of the Currency for 1876.

capital. These were more profitable, and, therefore, in most of the States but few banks were organized under general laws. In other States the best features of the New York law were omitted. The shareholders were not made personally liable; the security required was not sufficient, the notes were issued in proportion to the stock and bonds deposited, and not in proportion to the cash capital; no provision was made for the prompt redemption of the notes at any commercial center, and a majority of the directors and shareholders were frequently non-residents. Many of the organizations were not banks, in any true sense of the word, but were associations without capital, located at places not easily accessible, and owned by non-residents, who availed themselves of ill-considered legislation to convert their bonds into currency at rates higher than the market value, drawing the interest on their bonds, but transacting little or no business at the place of issue.

The first really comprehensive banking law of Massachusetts was passed in 1829, under which new banks were required to have fifty per cent of their capital bona fide paid in in specie before commencing business. It also prohibited loans to shareholders until their subscriptions were entirely paid in, and limited the amount of loans on pledges of its own stock to fifty per cent of the capital. The limit of circulating notes was increased to twenty-five per cent in excess of the paid-in capital, and debts due to or from the bank, inclusive of deposits, were restricted to twice the amount of such capital, the directors being held personally liable for any excess. On January 1, 1837, there had been organized in all, 138

banks, with an authorized capital of \$40,830,000. Of this number four had never gone into operation, while of the remaining 134 no less than thirty-two had either failed or had forfeited or surrendered their charters in consequence of the financial panic of that year. The nominal capital of the banks that failed was \$5,500,000; their liabilities were \$11,293,900, of which \$3,133,129 was for circulation and \$1,577,738 for deposits. The loss to their shareholders was estimated at \$2,500,000 and to the public at three-quarters of a million more, making a total loss of about \$3,125,000, or nearly thirty per cent of their entire indebtedness. During the fifty-two years, from 1784 to 1836, ten banks only had failed or discontinued, the total losses to their shareholders and the public probably not exceeding one-third of a million dollars. One of the results of this crisis was the adoption by Massachusetts of a system of official examinations of the banks, through the agency of a board of bank commissioners, who were required to make annual examinations of every bank and special ones whenever requested by the Governor of the State.

A free banking law was passed in 1851; very similar in its provisions to that of the State of New York; but not more than seven banks were ever organized under it, the system of chartered banks, which had so long prevailed, mainly occupying the field down to the time of the national banking system. Upon the establishment of the latter system the State did much to facilitate the conversion of State into National banks, and the first institution to avail itself of this privilege was the Safety Fund Bank of Boston, in 1863, under the title of the First National Bank of Boston. The conversions progressed so rap-

idly that in October, 1865, but a single bank remained doing business under a State charter. At the latter date, of the 183 State banks which existed in 1863, four had been discontinued and 178 had become National banks.'"

Section 49. Banking in the United States from 1844 to 1860.

The condition of the State banks from 1844 to 1860 was somewhat better than it had been during the previous period, but was still far from satisfactory. The notes of many of the State banks were of a depreciated value, and some were practically worthless. The soundest banks were those in the Northeastern States. There were no National banks in existence during this period. At the beginning of the Civil War about \$200,000,000 of State bank notes were in circulation in the country, which was a little less than the total amount of specie in circulation.

Section 50. The Present National Banking System.

The present National Banking System owes its origin to the Civil War. It was adopted for the purpose of aiding the United States in obtaining the money necessary to carry on the war. The new National banks were given the right to issue bank notes in return for their buying a certain amount of government bonds. To encourage (or force) State banks into becoming National banks, a tax of ten per cent per year was placed upon the circulation of State banks, thus taxing State bank notes out of

existence and proving the truth of the proposition laid down by Chief Justice Marshall in *McCulloch vs. Maryland*, that the power to tax involves the power to destroy.

The constitutionality of this tax upon the circulation of State banks was upheld by the Supreme Court of the United States in the case of the *Veozie Bank vs. Fenno*,⁸ in the following words:

“This currency, issued directly by the Government for the disbursement of the war and other expenditures, could not, obviously, be a proper object of taxation.

But on the 25th of February, 1863, the act authorizing national banking associations was passed, in which, for the first time during many years, Congress recognized the expediency and duty of imposing a tax upon currency. By this act a tax of two per cent annually was imposed on the circulation of the associations authorized by it. Soon after, by the act of March 3, 1863, a similar but lighter tax of one per cent annually was imposed on the circulation of State banks in certain proportions to their capital, and of two per cent on the excess; and the tax on the National associations was reduced to the same rates.

Both acts also imposed taxes on capital and deposits, which need not be noticed here.

At a later date, by the act of June 3, 1864, which was substituted for the act of February 25, 1863, authorizing national banking associations, the rate of tax on circulation was continued and applied to the whole amount of it, and the shares of their stockholders were also subjected to taxation by the States;

⁸ Wallace, 533.

to provide ways and means for the support of the Government, the tax on the circulation of the State banks was also continued at the same annual rate of one per cent, as before, but payment was required in monthly installments of one-twelfth of the one per cent with monthly reports from each State bank of the amount in circulation.

It can hardly be doubted that the object of this provision was to inform the proper authorities of the exact amount of paper money in circulation, with a view to its regulation by law.

The first step taken by Congress in that direction was by the act of July 17, 1862, prohibiting the issue and circulation of notes under one dollar by any person or corporation. The act just referred to was the next, and it was followed some months later by the act of March 3, 1865, amendatory of the prior internal revenue act, the sixth section of which provides, 'that every National banking association, State bank, or State banking association, shall pay a tax of ten per centum on the amount of the notes of any State bank, or State banking association, paid out by them after the 1st day of July, 1866.'

The same provision was re-enacted, with a more extended application, on the 13th of July, 1866, in these words: 'Every National banking association, State bank, or State banking association, shall pay a tax of ten per centum on the amount of notes of any person, State bank, or State banking association used for circulation, and paid out by them after the first day of August, 1866; and such tax shall be assessed and paid in such manner as shall be prescribed by the Commissioner of Internal Revenue.'

The constitutionality of this last provision is now drawn in question, and this brief statement of the recent legislation of Congress has been made for the purpose of placing in a clear light its scope and bearing, especially as developed in the provisions just cited. It will be seen that when the policy of taxing bank circulation was first adopted in 1863, Congress was inclined to discriminate for, rather than against, the circulation of the State banks, but that when the country had been sufficiently furnished with a National currency by the issues of United States notes and of National bank notes, the discrimination was turned, and very decidedly turned, in the opposite direction.

The general question now before us is, whether or not the tax of ten per cent imposed on State banks or National banks paying out the notes of individuals or State banks used for circulation, is repugnant to the Constitution of the United States.

In support of the position that the act of Congress, so far as it provides for the levy and collection of this tax, is repugnant to the Constitution, two propositions have been argued with much force and earnestness.

The first is that the tax in question is a direct tax, and has not been apportioned among the States agreeably to the Constitution.

The second is that the act imposing the tax impairs a franchise granted by the State, and that Congress has no power to pass any law with that intent or effect.

It is insisted, however, that the tax in the case before us is excessive, and so excessive as to indicate

a purpose on the part of Congress to destroy the franchise of the bank, and is, therefore, beyond the constitutional power of Congress.

The first answer to this is that the judicial cannot prescribe to the legislative department of the government limitations upon the exercise of its acknowledged powers. The power to tax may be exercised oppressively upon persons, but the responsibility of the legislature is not to the courts, but to the people by whom its members are elected. So if a particular tax bears heavily upon a corporation, or a class of corporations, it cannot, for that reason only, be pronounced contrary to the Constitution.

But there is another answer which vindicates equally the wisdom and the power of Congress.

It cannot be doubted that under the Constitution the power to provide a circulation of coin is given to Congress. And it is settled by the uniform practice of the Government and by repeated decisions, that Congress may constitutionally authorize the emission of bills of credit. It is not important here to decide whether the quality of legal tender, in payment of debts, can be constitutionally imparted to these bills; it is enough to say that there can be no question of the power of the Government to emit them; to make them receivable in payment of debts to itself; to fit them for use by those who see fit to use them in all the transactions of commerce; to provide for their redemption; to make them a currency, uniform in value and description, and convenient and useful for circulation. These powers, until recently, were only partially and occasionally exercised. Lately, however, they have been called into full ac-

tivity, and Congress has undertaken to supply a currency for the entire country.

The methods adopted for the supply of this currency were briefly explained in the first part of this opinion. It now consists of coin, of United States notes, and of the notes of the National banks. Both descriptions of notes may be properly described as bills of credit, for both are furnished by the Government; both are issued on the credit of the Government; and the Government is responsible for the redemption of both; primarily as to the first description, and immediately upon default of the bank, as to the second. When these bills shall be made convertible into coin, at the will of the holder, this currency will, perhaps, satisfy the wants of the community, in respect to a circulating medium, ■ perfectly as any mixed currency that can be devised.

Having thus, in the exercise of undisputed constitutional powers, undertaken to provide a currency for the whole country, it cannot be questioned that Congress may, constitutionally, secure the benefit of it to the people by appropriate legislation. To this end Congress has denied the quality of legal tender to foreign coins, and has provided by law against the imposition of counterfeit and base coin of the community. To the same end Congress may restrain, by suitable enactments, the circulation as money of any notes not issued under its own authority. Without this power, indeed, its attempt to secure ■ sound and uniform currency for the country must be futile.

Viewed in this light, as well as in the other light of ■ duty on contracts or property, we cannot doubt the constitutionality of the tax under consideration.

The three questions certified from the Circuit Court of the District of Maine must, therefore, be answered."

The best account of the passage of the National Banking Act is that contained in the following extract from Blaine's "Twenty Years in Congress":

"The popular mind having been thus favorably turned towards the system of National banks, the President specifically approved it in his message to Congress in December, 1862. Expressing his doubts 'whether a circulation of the United States notes, payable in coins, and sufficiently large for the wants of the people, can be permanently, usefully, and safely maintained,' Mr. Lincoln asked if there was 'any other mode by which necessary provision for the public wants can be made, and the great advantage of a safe and uniform currency secured?' He declared that he knew of one 'which promises of certain results, and is at the same time so unobjectionable, as the organization of banking associations under the general law of Congress well guarded in its provisions.' Mr. Chase elaborated his recommendation of the preceding year to the same effect. He asked that 'a tax might be imposed on the notes of the existing banks such as would practically exclude them from circulation.' In their stead the legal-tender notes would be used, but he preferred 'a circulation furnished by the Government but issued by banking associations organized under a general Act of Congress.'

Mr. Chase said the central idea of the proposed measure is the establishment of one uniform circulation, of equal value throughout the country, upon the

foundation of national credit combined with private capital. He suggested that 'these associations be entirely voluntary. Any persons desirous of employing real capital in sufficient amounts can, if the plan be adopted, unite together under proper articles, and having contributed the requisite capital can invest such part of it, not less than a fixed minimum, in United States bonds, and having deposited these bonds with the proper officer of the United States can receive United States notes in such denominations as may be desired, and employ them as money in discounts and exchanges.' As a further inducement, the Secretary said 'the stockholders of any existing banks can in like manner organize under the Act, and transfer, by such degrees as may be found convenient, the capital of the old to the use of the new associations. The notes thus put into circulation will be payable until resumption in United States notes, and after resumption in specie, by the association which issues them on demand, and if not so paid will be redeemable at the Treasury of the United States, from the proceeds of the bonds pledged in security.' The Secretary thought it would be 'difficult to conceive of a note circulation which will combine higher loan and general credit than this. After a few years no other circulation would be used, nor could the issues of the national circulation be easily increased beyond the legitimate demands of business. Every dollar of circulation would represent real capital actually invested in national stocks and the total amount issued could at all times be easily and quickly ascertained from the books of the Treasury. * * * *

The bill to carry out these suggestions was introduced in the Senate on the 26th of January, 1863, by Mr. Sherman, and was reported from the Finance Committee on the 2d of February. On the 9th the Senate took it up for consideration. Mr. Sherman advocated the proposed system in an elaborate argument on several distinct grounds; 'The banks would furnish a market for United States bonds; they would absorb the circulation of the State banks gradually and without harsh measures; they would create a community of interest between the stockholders of the banks, the people, and the Government, where now there existed a great contrariety of opinion, and a great diversity of interests; adequate safeguards would be established against counterfeiting; the currency proposed would be uniform and would take the place of the notes of sixteen hundred banks, differing in style, and so easily imitated and altered that while notes of one-sixth of the existing banks had been counterfeited, 1,861 kinds of imitations were afloat, and 3,039 alterations, in addition to 1,685 spurious notes in which hardly any care had been taken to show any resemblance to the genuine.' The National banks would be depositories of public moneys and their notes would be receivable for taxes. He concluded by declaring that 'we cannot maintain our nationality unless we establish a sound and stable financial system, and as the basis of it we must have a uniform national currency.' Accordingly he deemed the passage of the pending bill 'more important than any other measure now pending either in Senate or House.' "

The bill came to a vote in the Senate on the 12th

of February, and narrowly escaped defeat. The yeas were twenty-three, the nays twenty-one. The senators from Oregon, Nesmith and Harding, were the only Democrats who voted in the affirmative. Nine Republican senators voted against it.

The House of Representatives received the bill on the 19th. Mr. Spaulding, of New York, advocated it very earnestly. He stated that its principle was based on the free banking law of New York, which had been in successful operation since 1838. He dwelt upon the national character of the proposed notes, on their use in payment of taxes, and on the advantage to accrue from the exemption of the banking associations from State and United States taxation. Mr. Fenton, of New York, expressed the belief that the measure would aid in extricating the Government from the financial difficulties in which it was involved, and pronounced it 'one of the most potent means by which the representatives could strengthen the Government and the people in the struggle to put down the enemies of the country, and give hope and courage to the hearts of those brave men who had gone forth to battle.' Considerable opposition was offered, chiefly on the details and by amendments. But the House sustained the measure as it came from the Senate, and passed it on the 20th of February, by the close vote of 78 to 64, on the call of ayes and noes. It was approved by the President on the 25th.

The Currency Bureau of the Treasury Department provided for in the National Banking Act was organized by the appointment of Hugh McCulloch, who was then at the head of one of the largest State

banking institutions in Indiana. He was recognized as possessing executive capacity and large experience in financial affairs. He had originally been opposed, as were many others interested in State banks, to the National Bank Act, but, as he says, the more he examined the 'system' the more it 'grew into favor with him day by day.' This appears to have been the result with all who gave the question a fair and candid consideration, even when biased by personal interests or political prejudice. The law was defective in many particulars and some of its provisions made it difficult for existing State banks to accept charters under it. The first annual report of the Comptroller of the Currency shows that by November 28, 1863, 134 banks had been organized under the Act. Fourteen of these were in the New England States, sixteen in New York, twenty in Pennsylvania, twenty in Indiana, thirty-eight in Ohio; New Jersey, the District of Columbia and Kentucky each had one; Illinois seven, Iowa six, Michigan and Wisconsin four each, and Missouri two. Their total capital was \$7,184,715. The bonds deposited with the Treasurer of the United States were \$3,825,275, their deposits \$7,467,059, and their loans and discounts \$5,413,963.

In his report Mr. McCulloch pointed out defects of the law which had become apparent by the test of experience, and made many suggestions for its improvement. The whole subject was taken into consideration by the Ways and Means Committee of the House at the first session of the Thirty-eighth Congress. An amended bill, which repealed the Act of February 25, 1863, and supplied its place, was reported from the committee March 14, 1864. It was

carefully considered in the committee of the whole, section by section, and against the protest of its advocates an amendment was ingrafted upon it giving to the States the right to impose taxes on the bank shares for State and municipal purposes to the same degree that taxes were imposed upon the property of other moneyed corporations. The bill was reported to the House from the Committee of the Whole on the 16th of April, when Mr. Stevens moved a substitute in which the tax amendment was left out. The substitute was defeated, and thereupon the immediate friends of the bill united with its opponents and laid the whole subject on the table. Mr. Stevens was totally opposed to the exercise of any power whatever by the States over banks established by National authority. * * * *

“It soon became apparent, however, that some concession must be made to those of both political parties who believed that the States could not constitutionally be deprived of the right to levy uniform taxes on property within their jurisdiction. To meet the views of these gentlemen the Ways and Means Committee reported a bill with a provision intended to reconcile all differences of opinion. This gave to the States the power to tax the capital stock, circulation, dividends, or business of National banks at no higher rate than was imposed upon the same amount of moneyed capital in the hands of individual citizens of the State, provided no tax was imposed upon that part of the capital invested in United States bonds. This was adopted by a vote of 70 to 60 on the 18th of April, 1864.

The opposition to the bill in all other respects

save this question of taxation was confined mainly to the Democratic members of the House. The measure was by this time regarded favorably by all Republicans. It was considered to be a part of the Administration policy, and one that would contribute largely to strengthen the Government in its struggle. Its success thus far had demonstrated that under a perfected law it would soon become the general and popular banking system of the country. It was daily growing in favor with business men, and there was no longer doubt that a large proportion of the surplus capital of the nation would be invested in United States bonds and in the stock of the National banks. In the debate in the House, which was prolonged, two speeches of particular interest were elicited. Mr. James Brooks, of New York, as the leader of the Democratic minority on the question, ably summarized the objections of his party. He was a man of education and great intelligence. He had traveled extensively and was a close observer. He had been a writer for the metropolitan press for many years, and was familiar with the political and financial history of the country from an early period. He was an effective speaker. On this occasion he was in large part supplied with facts by Mr. James Gallatin, who as president of one of the principal banks of New York City had unsuccessfully attempted to dictate the financial policy of the Government in 1861. Mr. Gallatin had conceived an intense hostility to Mr. Chase, and inspired Mr. Brooks to make in the course of the debate on the bank bill some unfounded charges against the Secretary. The speech of Mr. Brooks was a general attack upon the financial policy

of the administration, directed principally against the Legal-Tender Act, and at the same time a qualified defense of the State bank system. He asserted that the Government could have successfully carried on the war upon a specie basis, but his authority for this claim was Mr. Gallatin. Mr. Samuel Hooper at the close of the debate defended the financial policy of the Administration and disposed of the argument of Mr. Brooks. He asserted that Mr. Gallatin had induced the banks of New York City on December 30, 1861, to suspend specie payments, and briefly related his presumptuous attempt to dictate to the Secretary of the Treasury the financial policy of the Nation. He declared that the issue of legal-tender notes was the only resource left to the Government, and 'was wise as well as necessary.' In his review of the financial history of the country he dealt unsparingly with the old State-bank system, and exposed in a masterly manner its inherent defects even in those States where the greatest care had been exercised by Legislative power to hedge it about with limitations.

In the Senate the debate on the House bill was chiefly confined to amendments proposed by the Finance Committee. The provision incorporated by the House in regard to taxation was amplified so as to make it more specific and definite. Considerable opposition was shown to this action, but Mr. Fessenden, chairman of Finance, defended the recommendation of his committee and successfully replied to the arguments against it. An effort was made by Senators Doolittle, Henderson and Trumbull on the

Republican side to prevent the establishment of any more banks under the law than were in existence in May, 1863, unless they redeemed their notes in coin. The banks then organized possessed an aggregate capital of about \$36,000,000, with bonds deposited to secure circulation to the extent of a little more than \$33,000,000. The argument was that this addition to the legal-tender notes already in circulation supplied an ample currency for the business of the country. The issue of the whole \$300,000,000 of the National bank notes authorized by the bill, these senators claimed, would be such an expansion of the currency as would sink its value to almost nothing. They proposed also to compel the State banks to retire their circulation, but permitted them to organize on the specie basis as National banks. Mr. John P. Hale, of New Hampshire, thought that 'it would be much simpler to incorporate in the bills a provision abolishing all such instruments as had previously been known as State institutions.' Senator Collamer proposed to require the banks to retain in their vaults one-fourth of all the gold they received as interest on their bonds deposited to secure circulation until the resumption of specie payments.

These amendments were voted down, and the bill finally passed the Senate on the 10th of May by a vote of 30 to 9, ten senators being absent or not voting. A conference committee of the two Houses agreed upon the points of difference. The report was adopted and the bill was approved by the President on the 3d of June, 1864. By the end of November 584 National banks had been organized, with an aggregate capital of \$108,964,597.28, holding \$81,961,-

450 of the bonds of the United States to secure a circulation of \$65,864,650. These banks at once became agencies for the sale of the government's securities, and their officers being usually the men of most experience in financial affairs in their respective communities, gave encouragement and confidence to their neighbors who had money to invest. The sale of government bonds was in this way largely increased. The National banks thus became at once an effective aid to the Government. By the close of the fiscal year 1864, \$367,602,529 of bonds were disposed of by the banks. During the fiscal year 1865 bonds to the amount of \$335,266,617 were sold over their counters. On the 1st of October, 1865, there were in existence 1,513 National banks, with an aggregate capital of \$395,729,597.83, with \$276,219,950 of bonds deposited with the Treasurer of the United States to secure circulation.

Experience has justified the authors and promoters of the National banking system. Originally the circulation was limited to a total volume of \$300,000,000, apportioned, one-half according to representative population, and the remainder by the Secretary of the Treasury among associations with 'due regard to the existing banking capital, resources, and business of the respective States, Districts, and Territories.' Complaint arose that by such limitation and apportionment injustice was done and monopolies created. After the war this restriction was removed and banking under the National system became entirely free. The advantages of uniform circulation on a basis of undoubted strength and availability have won almost universal favor among busi-

ness men and prudent thinkers. The restoration of the multiform State system, with notes of varying value and banks of doubtful solvency, would receive no support among the people.

The provisions of this act will be found in Chapter VIII.

The following information and statistics, relative to the National banks of the United States, were contained in the report of the Secretary of the Treasury for 1907:

NATIONAL BANKS.

“Under the act of February 25, 1863, establishing the National banking system, and the revised act of June 3, 1864, and during the period ended March 13, 1900, National banking associations were organized to the number of 5,264, of which 3,617 were in existence on that date, 1,273 having been placed in voluntary liquidation and 374 in the charge of receivers. The minimum amount of capital of National banks, under these acts, was \$50,000, and the average capital of associations in existence at the close of business March 13, 1900, was \$170,392. The assumed demand for National banks in localities not warranting a capital of \$50,000 induced the Congress, under date of March 14, 1900, to authorize the incorporation of associations with minimum capital of \$25,000, but only in towns with population not in excess of 3,000. From the date of the act to the close of business on August 31, 1907, a period of nearly seven and one-half years, 2,333 banks were incorporated under that act with authorized capital of \$60,840,500, the average capital being \$26,078. During this same period

1,256 associations, with individual capital of \$50,000 or over and with aggregate capital of \$150,712,800, were authorized to begin business. The number of banks chartered under both acts in this period was 3,589 (approximately the same number as was in existence on March 14, 1900), with capital of \$211,553,300. Included in this total were 415 State banks converted into National banks; 1,164 associations organized to succeed State or private banks, closed for reorganization, and 2,010 banks of primary organization. The capital of banks of the latter class aggregated \$109,838,500, and that of converted and reorganized banks \$101,714,800. During the year ended August 31, 1907, charters were granted to 504 associations, the aggregate capital being \$34,290,000, of which 315 banks with aggregate capital of \$8,210,000 were organized under the act of March 14, 1900—that is, with individual capital of less than \$50,000—and 189 total capital of \$26,080,000, with individual capital of \$50,000 or over. Of the banks chartered during the year, 70 were conversions of State banks, 148 organizations to succeed State or private banks, and 286 banks of primary organization. While there was a gross increase in number of banks organized during the year of 504, the net increase was but 420, as 81 banks were placed in voluntary liquidation, one theretofore insolvent, being authorized to resume business, and 4 closed as a result of insolvency. Receivers were appointed for 8 banks during this period, but in 4 instances the receivers were discharged and the banks permitted to resume business, having been placed in a solvent condition. Of the banks closed by voluntary liquidation, 31 were

absorbed by other National banks, 39 by State banking institutions, and 11 closed to discontinue business.

From the date of incorporation of the first National bank in 1863 to August 31, 1907, 8,853 associations were chartered, of which 6,582 with authorized capital of \$904,494,775 were in existence at the close of that period. Associations to the number of 1,822 have been placed in voluntary liquidation and 449 in the charge of receivers. The number of failures represents approximately five per cent of the total number of banks chartered, and from records at command of the Comptroller of the Currency it appears that creditors of insolvent associations have received, on an average, nearly eighty per cent of the amounts due.

In the act authorizing the incorporation of banks with minimum capital of \$25,000 were included provisions for the reduction of tax on circulation, where secured by two per cent consols, and for the issue of circulation, to the par value of bonds deposited, not in excess, however, of the paid-in capital stock. As primary results of this legislation, the authorized capital stock of National banks has been increased to the extent of \$288,186,680 or to \$904,494,775, and circulating notes outstanding, secured by bonds, have reached \$556,945,917, an increase of \$340,571,122. The total outstanding circulation secured by bonds and by lawful money deposited for the reduction of circulation or on account of liquidating and insolvent banks, amounting to \$604,056,321, is an increase of \$349,653,591 since March 14, 1900.

The number and capital of National banks or-

ganized in each State and geographical division from March 14, 1900, to August 31, 1907, and the paid-in capital stock of National banks on August 22, 1907, are shown in the following table:

Of the total amount of bonds on deposit as security for circulation \$528,841,550 are two per cent consols of 1930; \$16,774,380, Panama Canal bonds; \$8,513,900, percents of 1925; \$5,177,390 three percents of 1908; and \$12,500, four percents of 1907."

In 1908 a National Monetary Commission was created in the United States to report upon desirable changes in the monetary system. This Commission made a special report to Congress on December 21, 1909, on the condition of the 25,000 banks then existent in the country, and following the final report of the Commission, Congress in 1913 passed the Federal Reserve Act, establishing a system of Federal Reserve banks, twelve in number, under the supervision of a Federal Reserve Board and designed to furnish a more elastic currency for commercial purposes. The twelve Federal Reserve Banks were accordingly established at commercial centers in 1914.

The main provisions of the Federal Reserve Act are included in the next chapter.

CHAPTER VIII.

NATIONAL AND STATE BANKING LAWS.

1. Organization and Powers.

Section 51. Text of National Banking Law 81.

Sec. 5133. (Formation of National banking associations.) Associations for carrying on the business of banking under this Title may be formed by any number of natural persons, not less in any case than five. They shall enter into articles of association, which shall specify in general terms the object for which the association is formed, and may contain any other provisions not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs. These articles shall be signed by the persons uniting to form the association, and a copy of them shall be forwarded to the Comptroller of the Currency, to be filed and preserved in his office.

Sec. 1. (Act to be known as "the National bank act.") That the act entitled "An act to provide a national currency secured by a pledge of United States bonds, and to provide for the circulation and redemption thereof," approved June third, eighteen hundred and sixty-four, shall be hereafter known as "the National bank act."

Sec. 17. (Provisions applicable to Territory of Oklahoma—Directors.) That the provisions of title

sixty-two of the Revised Statutes of the United States relating to National banks, and all amendments thereto, shall have the same force and effect in the Territory of Oklahoma as elsewhere in the United States; Provided, That persons otherwise qualified to act as directors shall not be required to have resided in said Territory for more than three months immediately preceding their election as such.

Sec. 5134. (Requisites of organization certificate.) The persons uniting to form such an association shall, under their hands, make an organization certificate, which shall specifically state:—

First. The name assumed by such association; which name shall be subject to the approval of the Comptroller of the Currency.

Second. The place where its operation of discount and deposit are to be carried on, designating the State, Territory, or district, and the particular county and city, town or village.

Third. The amount of capital stock and the number of shares into which the same is to be divided.

Fourth. The names and places of residence of the shareholders and the number of shares held by each of them.

Fifth. The fact that the certificate is made to enable such persons to avail themselves of the advantages of this Title.

Sec. 5135. (How Certificate shall be acknowledged and filed.) The organization certificate shall be acknowledged before a judge of some court of record, or notary public; and shall be, together with the acknowledgment thereof, authenticated by the

seal of such court, or notary, transmitted to the Comptroller of the Currency, who shall record and carefully preserve the same in his office.

Sec. 5136. (Corporate powers of association.) Upon duly making and filing articles of association and an organization certificate, the association shall become, as from the date of the execution of its organization certificate, a body corporate, and as such, and in the name designated in the organization certificate, it shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for the period of twenty years from its organization, unless it is sooner dissolved according to the provisions of its articles of association, or by the act of its shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law and equity, as fully as natural persons.

Fifth. To elect or appoint directors, and by its board of directors to appoint a president, vice-president, cashier, and other officers, define their duties, require bonds of them and fix the penalty thereof, dismiss such officers or any of them at pleasure, and appoint others to fill their places.

Sixth. To prescribe, by its board of directors, by-laws not inconsistent with law, regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers appointed, its property transferred, its general business con-

ducted, and the privileges granted to it by law exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, subject to law, all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of this Title.

But no association shall transact any business except such as is incidental and necessary preliminary to its organization, until it has been authorized by the Comptroller of the Currency to commence the business of banking.

Sec. 2. (Change of name and location.) That any National banking association may change its name or the place where its operations of discourse and deposit are to be carried on, to any other place within the same State, not more than thirty miles distant, with the approval of the Comptroller of the Currency, by the vote of shareholders owning two-thirds of the stock of such association. A duly authenticated notice of the vote and of the new name or location selected shall be sent to the office of the Comptroller of the Currency, but no change of name or location shall be valid until the Comptroller shall have issued his certificate of approval of the same.

Sec. 3. (Debts, etc., not affected by change.) That all debts, liabilities, right, provisions, and powers of the association under its old name shall

devolve upon and inure to the association under its new name.

Sec. 4. (Liabilities to continue.) That nothing in this act contained shall be so construed as in any manner to release any National banking association under its old name or at its old location from any liability, or affect any action or proceeding in law in which said association may be or become a party or interested.

Act of July 12, 1882.

Sec. 1. (Extension of charter for twenty years.) That any National banking association organized under the acts of February twenty-fifth, eighteen hundred and sixty-three, June third, eighteen hundred and sixty-four, and February fourteenth, eighteen hundred and eighty, or under sections fifty-one and thirty-five, fifty-one hundred and thirty-six, and fifty-one hundred and fifty-four of the Revised Statutes of the United States, may, at any time within the two years next previous to the date of the expiration of its corporate existence under present law, and with the approval of the Comptroller of the Currency, to be granted, as hereinafter provided, extend its period of succession by amending its articles of association for a term of not more than twenty years from the expiration of the period of succession named in said articles of association, and shall have succession for such extended period, unless sooner dissolved by the act of shareholders owning two-thirds of its stock, or unless its franchise becomes forfeited by some violation of law, or unless hereafter modified or repealed.

Sec. 2. (Consent in writing of two-thirds of shareholders.) That such amendment of said articles of association shall be authorized by the consent in writing of shareholders owning not less than two-thirds of the capital stock of the association; and the board of directors shall cause such consent to be certified under the seal of the association, by the president or cashier, to the Comptroller of the Currency, accompanied by an application made by the president or cashier for the approval of the amended articles of association by the Comptroller; and such amended articles of association shall not be valid until the Comptroller shall give to such association a certificate under his hand and seal that the association has complied with all the provisions required to be complied with, and is authorized to have succession for the extended period named in the amended articles of association.

Sec. 3. (Comptroller to make examination and issue certificate.) That upon the receipt of the application and certificate of the association provided for in the preceding section, the Comptroller of the Currency shall cause a special examination to be made, at the expense of the association, to determine its condition; and if after such examination or otherwise, it appears that the condition of said association is not satisfactory, he shall withhold such certificate of approval.

Sec. 4. (Right, privileges, etc., of banks preserved.) That any association so extending the period of succession shall continue to enjoy all the rights and privileges and immunities granted and shall continue to be subject to all the duties, liabilities

ties, and restrictions imposed by the Revised Statutes of the United States, and other acts having reference to National banking associations, and it shall continue to be in all respects the identical association it was before the extension of its period of succession. Provided, however, . . .

Sec. 5. (Withdrawal of non-consenting shareholders—preference of old shareholders.) That when any National banking association has amended its articles of association as provided in this act, and the Comptroller has granted his certificate of approval, any shareholder not assenting to such amendment may give notice in writing to the directors, within thirty days from the date of the certificate of approval, of his desire to withdraw from said association, in which case he shall be entitled to receive from said banking association the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by such shareholder, one by the directors, and the third by the first two; and in case the value so fixed shall not be satisfactory to any such shareholder he may appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and if said reappraisal shall exceed the value fixed by said committee, the bank shall pay said expenses; and the value so ascertained and determined shall be deemed to be a debt due, and be forthwith paid, to said shareholder from said bank; and the shares so surrendered and appraised shall, after due notice, be sold at public sale, within thirty days after the final appraisal provided in this section: Provided, That in the or-

ganization of any banking association intended to replace any existing banking association and retaining the name thereof, the holders of stock in the expiring association shall be entitled to preference in the allotment of the shares of the new association in proportion to the number of shares held by them respectively in the expiring association.

Sec. 6. (Redemption of outstanding circulation—new notes—cost of new plates.) That the circulating notes of any association so extending the period of its succession which shall have been issued to it prior to such extension shall be redeemed at the Treasury of the United States, as provided in section three of the act of June twentieth, eighteen hundred and seventy-four, entitled, “An Act fixing the amount of United States notes, providing for redistribution of National bank currency, and for other purposes,” and such notes when redeemed shall be forwarded to the Comptroller of the Currency and destroyed as now provided by law, and at the end of three years from the date of the extension of the corporate existence of each bank the association so extended shall deposit lawful money with the Treasurer of the United States sufficient to redeem the remainder of the circulation which was outstanding at the date of its extension, as provided in sections fifty-two hundred and twenty-two, fifty-two hundred and twenty-four, and fifty-two hundred and twenty-five of the Revised Statutes; and any gain that may arise from the failure to present such circulating notes for redemption shall inure to the benefit of the United States; and from time to time, ~~as~~ such notes are redeemed or lawful money deposited therefor ~~as~~

provided herein, new circulating notes shall be issued as provided by this act, bearing such devices, to be approved by the Secretary of the Treasury, as shall make them readily distinguishable from the circulating notes heretofore issued; Provided, however, That each banking association which shall obtain the benefit of this act shall reimburse to the Treasury the cost of preparing the plate or plates for such new circulating notes as shall be issued to it.

Sec. 7. (Liquidation of banks not accepting provisions of act.) That National banking associations whose corporate existence has expired or shall hereafter expire, and which do not avail themselves of the provisions of this act, shall be required to comply with the provisions of sections fifty-two hundred and twenty-one and fifty-two hundred and twenty-one of the Revised Statutes in the same manner as if the shareholders had voted to go into liquidation, as provided in section fifty-two hundred and twenty of the Revised Statutes; and the provisions of sections fifty-two hundred and twenty-four and fifty-two hundred and twenty-five of the Revised Statutes shall also be applicable to such associations, except as modified by this act; and the franchise of such association is hereby extended for the sole purpose of liquidating their affairs until such affairs are finally closed.

Sec. 5137. (Power to hold real property.) A National banking association may purchase, hold, and convey real estate for the following purposes, and for no others:

First. Such as shall be necessary for its imme-

diate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed to it in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgments, decrees, or mortgages held by the association, or shall purchase to secure debts due to it.

But no such association shall hold the possession of any real estate under mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than five years.

Sec. 5138. (Requisite amount of capital.) No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the sanction of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars.

Sec. 5139. (Shares of stock and transfers.) The capital stock of each association shall be divided into shares of one hundred dollars each, and be deemed

personal property, and transferable on the books of the association in such manner as may be prescribed in the by-laws or articles of association. Every person becoming a shareholder by such transfer shall, in proportion to his shares, succeed to all the rights and liabilities of the prior holder of such shares; and no change shall be made in the articles of association by which the rights, remedies, or security of the existing creditors of the association shall be impaired.

Sec. 5140. (How payment of the capital stock must be made and proved.) At least fifty per centum of the capital stock of every association shall be paid in before it shall be authorized to commence business; and the remainder of the capital stock of such association shall be paid in installments of at least ten per centum each, on the whole amount of the capital, as frequently as one installment at the end of each succeeding month from the time it shall be authorized by the Comptroller of the Currency to commence business; and the payment of each installment shall be certified to the Comptroller, under oath, by the president or cashier of the association.

Sec. 5141. (Proceedings if shareholder fails to pay installments.) Whenever any shareholder, or his assignee, fails to pay any installment on the stock when the same is required by the preceding section to be paid, the directors of such association may sell the stock of such delinquent shareholder at public auction, having given three weeks' previous notice thereof in a newspaper published and of general circulation in the city or county where the association is located, or if no newspaper is published in said city

or county, then in a newspaper published nearest thereto, to any person who will pay the highest price therefor, to be not less than the amount due thereon, with the expenses of advertisement and sale; and the excess, if any, shall be paid to the delinquent shareholder. If no bidder can be found who will pay for such stock, the amount due thereon to the association, and the cost of the advertisement and sale, the amount previously paid shall be forfeited to the association, and such stock shall be sold as the directors may order, within six months from the time of such forfeiture, and if not sold it shall be cancelled and deducted from the capital stock of the association. If any such cancellation and reduction shall reduce the capital of the association below the minimum of capital required by law, the capital stock shall, within thirty days from the date of such cancellation, be increased to the required amount; in default of which a receiver may be appointed, according to the provisions of section fifty-two hundred and thirty-four, to close up the business of the association.

Sec. 5142. (Increase of capital stock.) Any association formed under this title may, by its articles of association, provide for an increase of its capital from time to time, as may be deemed expedient, subject to the limitations of this title. But the maximum of such increase to be provided in the articles of association shall be determined by the Comptroller of the Currency; and no increase of capital shall be valid until the whole amount of such increase is paid in, and notice thereof has been transmitted to the Comptroller of the Currency, and his certificate ob-

tained specifying the amount of such increase of capital stock, with his approval thereof, and that it has been duly paid in as part of the capital of such association.

Sec. 1. (Increase of capital stock.) That any National banking association may, with the approval of the Comptroller of the Currency, by vote of shareholders owning two-thirds of the stock of such association, increase its capital stock, in accordance with existing laws, to any sum approved by the said Comptroller, notwithstanding the limit fixed in its original articles of association and determined by said Comptroller; and no increase of the capital stock of any national banking association either within or beyond the limit fixed in its original articles of association shall be made except in the manner herein provided.

Sec. 5143. (Reduction of capital stock.) Any association formed under this title may, by the vote of shareholders owning two-thirds of its capital stock, reduce its capital to any sum not below the amount required by this title to authorize the formation of associations; but no such reduction shall be allowable which will reduce the capital of the association below the amount required for its outstanding circulation, nor shall any such reduction be made until the amount of the proposed reduction has been reported to the Comptroller of the Currency and his approval thereof obtained.

Sec. 5144. (Right of shareholders to vote.) In all elections of directors, and in deciding all questions at meetings of shareholders, each shareholder shall be entitled to one vote on each share of stock

held by him. Shareholders may vote by proxies duly authorized in writing; but no officer, clerk, teller, or bookkeeper of such association shall act as proxy, and no shareholder whose liability is past due and unpaid shall be allowed to vote.

Sec. 5145. (Election of directors.) The affairs of each association shall be managed by not less than five directors, who shall be elected by the shareholders at a meeting to be held at any time before the association is authorized by the Comptroller of the Currency to commence the business of banking; and afterward at meetings to be held on such day in January of each year as is specified therefor in the articles of association. The directors shall hold office for one year, and until their successors are elected and have qualified.

Sec. 5146. (Requisite qualifications of directors.) Every director must, during his whole term of service, be a citizen of the United States, and at least three-fourths of the directors must have resided in the State, Territory, or District in which the association is located, at least one year immediately preceding their election, and must be residents therein during their continuance in office. Every director must own, in his own right, at least ten shares of the capital stock of the association of which he is a director. Any director who ceases to be the owner of ten shares of the stock, or who becomes in any other manner disqualified, shall thereby vacate his place.

Sec. 5147. (Oath required from directors.) Each director, when appointed or elected, shall take an oath that he will, so far as the duty devolves on

him, diligently and honestly administer the affairs of such association, and will not knowingly violate, or willingly permit to be violated, any of the provisions of this title, and that he is the owner in good faith, and in his own right, of the number of shares of stock required by this title, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt. Such oath, subscribed by the director making it, shall be immediately transmitted to the Comptroller of the Currency, and shall be filed and preserved in his office.

Sec. 5148. (Filling vacancies.) Any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election.

Sec. 5149. (Proceedings where no election is held on the proper day.) If, from any cause, an election is not made at the time appointed, the association shall not for that cause be dissolved, but an election may be held on any subsequent day, thirty days' notice thereof in all cases having been given in a newspaper published in the city, town, or county in which the association is located; and if no newspaper is published in such city, town, or county, such notice shall be published in a newspaper published nearest thereto. If the articles of association do not fix the day on which the election shall be held, or if no election is held on the day fixed, the day for election shall be designated by the board of directors in their by-laws, or otherwise; or if the directors fail to fix the day, shareholders representing two-thirds of the shares may do so.

Sec. 5150. (Election of president of the board.) One of the directors, to be chosen by the board, shall be the president of the board.

Sec. 5151. (Individual liability of shareholders.) The shareholders of every National banking association shall be held individually responsible, equally and ratably, and not one for another, for all contracts, debts, and engagements of such association, to the extent of the amount of their stock therein, at the par value thereof, in addition to the amount invested in such shares; except that shareholders of any banking association now existing under State laws, having not less than five millions of dollars of capital actually paid in, and a surplus of twenty per centum on hand, both to be determined by the Comptroller of the Currency, shall be liable only to the amount invested in their shares; and such surplus of twenty per centum shall be kept undiminished, and be in addition to the surplus provided for in this title; and if at any time there is a deficiency in such surplus of twenty per centum, such association shall not pay any dividends to its shareholders until the deficiency is made good, and in case of such deficiency the Comptroller of the Currency may compel the association to close its business and wind up its affairs under the provisions of Chapter four of this title.

Sec. 2. (Enforcement of individual liability of shareholder.) That when any National banking association shall have gone into liquidation under the provisions of section five thousand two hundred and twenty of said statutes, the individual liability of the shareholders provided by section fifty-one hundred

and fifty-one of said statutes may be enforced by any creditor of such association, by bill in equity, in the nature of a creditor's bill, brought by such creditor on behalf of himself and of all other creditors of the association, against the shareholders thereof, in any court of the United States having original jurisdiction in equity for the district in which such association may have been located or established.

Sec. 5152. (Executors, trustees, etc. not personally liable.) Persons holding stock as executors, administrators, guardians, or trustees, shall not be personally subject to any liabilities as stockholders; but the estates and funds in their hand shall be liable in like manner and to the same extent as the testator, intestate, ward, or person interested in such trust-funds would be, if living and competent to act and hold the stock in his name.

Sec. 5153. (Duties and liabilities when designated as depositaries of public moneys.) All National banking associations, designated for that purpose by the Secretary of the Treasury, shall be depositaries of public money, except receipts from customs, under such regulations as may be prescribed by the Secretary, but receipts derived from duties on imports in Alaska, the Hawaiian Islands, and other islands under the jurisdiction of the United States may be deposited in such depositaries subject to such regulations; and such depositaries may also be employed as financial agents of the Government; and they shall perform all such reasonable duties as depositaries of public moneys and financial agents of the Government as may be required of them. The

Secretary of the Treasury shall require the associations thus designated to give satisfactory security, by the deposit of United States bonds and otherwise, for the safekeeping and prompt payment of the public money deposited with them and for the faithful performance of their duties as financial agents of the Government. And every association so designated as receiver or depositary of the public money shall take and receive at par all of the national currency bills, by whatsoever association issued, which have been paid into the Government for internal revenue or for loans or stocks.

Sec. 5154. (Organization of State banks as National banking associations.) Any bank incorporated by special law, or any banking institution organized under a general law of any State, may become a national association under this title by the name prescribed in its organization certificate; and in such case the articles of association and the organization certificate may be executed by a majority of the directors of the bank or banking institution; and the certificate shall declare that the owners of two-thirds of the capital stock have authorized the directors to make such certificate, and to change and convert the bank or banking institution into a national association. A majority of the directors, after executing the articles of association and organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a national association. The shares of any such bank may continue to be for the same amount each as they were before the conversion, and the directors may con-

tinue to be the directors of the association until others are elected or appointed in accordance with the provisions of this chapter; and any State bank which is a stockholder in any other bank, by authority of State laws, may continue to hold its stock, although either bank, or both, may be organized under and have accepted the provision of this title. When the Comptroller of the Currency has given to such association a certificate, under his hand and official seal, that the provisions of this title have been complied with, and that it is authorized to commence the business of banking, the association shall have the same powers and privileges, and shall be subject to the same duties, responsibilities and rules, in all respects, as are prescribed for other associations originally organized as National banking associations, and shall be held and regarded as such an association. But no such association shall have a less capital than the amount prescribed for associations organized under this title.

Sec. 5155. (State banks having branches.) It shall be lawful for any bank or banking association organized under State laws, and having branches, the capital being joint and assigned to and used by the mother-bank and branches in definite proportions, to become a National banking association in conformity with existing laws, and to retain and keep in operation its branches, or such one or more of them as it may elect to retain; the amount of the circulation redeemable at the mother-bank, and each branch, to be regulated by the amount of capital assigned to and used by each.

Sec. 5156. (Reservation of rights of associa-

tions organized under Act of 1863.) Nothing in this title shall affect any appointments made, acts done, or proceedings had or commenced prior to the third day of June, eighteen hundred and sixty-four, in or toward the organization of any National banking association under the act of February twenty-five, eighteen hundred and sixty-three; but all associations which, on the third day of June, eighteen hundred and sixty-four, were organized or commenced to be organized under that act, shall enjoy all the rights and privileges granted, and be subject to all the duties, liabilities, and restrictions imposed by this title, notwithstanding all the steps prescribed by this title for the organization of associations were not pursued, if such associations were duly organized under that act.

Sec. 5157. (What associations are governed by chapters 2, 3, and 4.) The provisions of chapters two, three, and four of this title, which are expressed without restrictive words, as applying to "National banking associations" or to "associations" apply to all associations organized to carry on the business of banking under any act of Congress.

Sec. 5158. (Registered bonds intended by the term "United States bonds.") The term "United States bonds," as used throughout this chapter, shall be construed to mean registered bonds of the United States.

Sec. 5159. (Deposit of bonds required before issue of circulating notes.) Every association, after having complied with the provisions of this title, preliminary to the commencement of the banking business, and before it shall be authorized to commence

banking business under this title, shall transfer and deliver to the Treasurer of the United States, any United States registered bonds, bearing interest, to an amount not less than thirty thousand dollars and not less than one-third of the capital stock paid in. Such bonds shall be received by the Treasurer upon deposit, and shall be by him safely kept in his office, until they shall be otherwise disposed of, in pursuance of the provisions of this title.

Sec. 5160. (Increase or reduction of deposit to correspond with capital.) The deposit of bonds made by each association shall be increased as its capital may be paid up or increased, so that every association shall at all times have on deposit with the Treasurer registered United States bonds to the amount of at least one-third of its capital stock actually paid in. And any association that may desire to reduce its capital or to close up its business and dissolve the organization, may take up its bonds upon returning to the Comptroller its circulating notes in the proportion hereinafter required, or may take up any excess of bonds beyond one-third of its capital stock, and upon which no circulating notes have been delivered.

Sec. 5161. (Exchange of coupon for registered bonds.) To facilitate a compliance with the two preceding sections, the Secretary of the Treasury is authorized to receive from any association, and cancel, any United States coupon bonds, and to issue in lieu thereof registered bonds of like amount, bearing a like rate of interest, and having the same time to run.

Sec. 5162. (Manner of making transfer of

bonds.) All transfers of United States bonds, made by any association under the provisions of this title, shall be made to the Treasurer of the United States in trust for the association, with a memorandum written or printed on each bond, and signed by the cashier, or some other officer of the association making the deposit. A receipt shall be given to the association, by the Comptroller of the Currency, or by a clerk appointed by him for that purpose, stating that the bond is held in trust for the association on whose behalf the transfer is made and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency.

Sec. 5163. (Registry of Transfers.) The Comptroller of the Currency shall keep in his office a book in which he shall cause to be entered, immediately upon countersigning it, every transfer or assignment by the Treasurer of any bonds belonging to a National banking association, presented for his signature. He shall state in such entry the name of the association from whose accounts the transfer is made, the name of the party to whom it is made, and the par value of the bonds transferred.

Sec. 5164. (Notice of transfer to be given to association interested.) The Comptroller of the Currency shall, immediately upon countersigning and entering any transfer or assignment by the Treasurer, of any bonds belonging to a national banking association, advise by mail the association from whose accounts the transfer is made, of the kind and

numerical designation of the bonds, and the amount thereof so transferred.

Sec. 5165. (Examination of registry and bonds.) The Comptroller of the Currency shall at all times, during office hours, access to the books of the Treasurer of the United States for the purpose of ascertaining the correctness of any transfer or assignment of the bonds deposited by an association, presented to the Comptroller to countersign; and the Treasurer shall have the like access to the book mentioned in section fifty-one hundred and sixty-three, during office hours, to ascertain the correctness of the entries in the same; and the Comptroller shall also at all times have access to the bonds on deposit with the Treasurer to ascertain their amount and condition.

Sec. 5166. (Annual examination of bonds by associations. Every association having bonds deposited in the office of the Treasurer of the United States, shall, once or oftener in each fiscal year, examine and compare the bonds pledged by the association with the books of the Comptroller of the Currency and with the accounts of the association, and, if they are found correct, to (sic) execute to the Treasurer a certificate setting forth the different kinds and the amounts thereof, and that the same are in the possession and custody of the Treasurer at the date of the certificate. Such examination shall be made at such time or times, during the ordinary business hours, as the Treasurer and the Comptroller, respectively, may select, and may be made by an officer or agent of such association, duly appointed in writing for that purpose; and

his certificate before mentioned shall be of like force and validity as if executed by the president or cashier. A duplicate of such certificate, signed by the Treasurer, shall be retained by the association.

Sec. 5167. (Custody of bonds, collection of interest, etc.) The bonds transferred to and deposited with the Treasurer of the United States, by any association, for the security of its circulating notes, shall be held exclusively for that purpose until such notes are redeemed, except as provided in this title. The Comptroller of the Currency shall give to any such association powers of attorney to receive and appropriate to its own use the interest on the bonds which it has so transferred to the Treasurer, but such powers shall become inoperative whenever such association fails to redeem its circulating notes. Whenever the market or cash value of any bonds thus deposited with the Treasurer is reduced below the amount of the circulation issued for the same, the Comptroller may demand and receive the amount of such depreciation in other United States bonds at cash value, or in money, from the association, to be deposited with the Treasurer as long as such depreciation continues. And the Comptroller, upon the terms prescribed by the Secretary of the Treasury, may permit an exchange to be made of any of the bonds deposited with the Treasurer by any association, for other bonds of the United States authorized to be received as security for circulating notes, if he is of opinion that such an exchange can be made without prejudice to the United States; and he may direct the return of any bonds to the association which transferred the same, in sums of not less than

one thousand dollars, upon the surrender to him and the cancellation of a proportionate amount of such circulating notes; Provided, That the remaining bonds which shall have been transferred by the association offering to surrender circulating notes are equal to the amount required for the circulating notes not surrendered by such association, and that the amount of bonds in the hands of the Treasurer is not diminished below the amount required to be kept on deposit with him, and that there has been no failure by the association to redeem its circulating notes, nor any other violation by it of the provisions of this title, and that the market or cash value of the remaining bonds is not below the amount required for the circulation issued for the same.

Sec. 4. (Withdrawal of circulating notes and taking up bonds deposited.) That any association organized under this act, or any of the acts of which this is an amendment, desiring to withdraw its circulating notes, in whole or in part, may, upon the deposit of lawful money with the Treasurer of the United States in sums of not less than nine thousand dollars, take up the bonds which said association has on deposit with the Treasurer for the security of such circulating notes; which bonds shall be assigned to the bank in the manner specified in the nineteenth section of the National bank act; and the outstanding notes of said association, to an amount equal to the legal-tender notes deposited, shall be redeemed at the Treasury of the United States, and destroyed as now provided by law: Provided, That the amount of the bonds on deposit for circulation shall not be reduced below fifty thousand dollars.

Sec. 8. (Amount of bonds to secure circulating notes—cost of transportation for reducing or retiring circulation.) That National banks now organized or hereafter organized, having a capital of one hundred and fifty thousand dollars, or less, shall not be required to keep on deposit or deposit with the Treasurer of the United States, United States bonds in excess of one-fourth of their capital stock as security for their circulating notes; but such banks shall keep on deposit or deposit with the Treasurer of the United States the amount of bonds as herein required. And such of those banks having on deposit bonds in excess of that amount are authorized to reduce their circulation by the deposit of lawful money as provided by law. Provided, That the amount of such circulating notes shall not in any case exceed ninety per centum of the par value of the bonds deposited as herein provided: Provided further, That the National banks which shall hereafter make deposits of lawful money for the retirement in full of their circulation shall at the time of their deposit be assessed for the cost of transporting and redeeming their notes then outstanding, a sum equal to the average cost of the redemption of national-bank notes during the preceding year, and shall thereupon pay such assessment. And all National banks which have heretofore made or shall hereafter make deposits of lawful money for the reduction of their circulation shall be assessed and shall pay an assessment in the manner specified in section three of the act approved June twentieth, eighteen hundred and seventy-four, for the cost of transporting and redeeming their notes redeemed

from such deposits subsequently to June thirtieth, eighteen hundred and eighty-one.

Sec. 9. (Withdrawal of circulating notes and bonds deposited.) That any National banking association now organized, or hereafter organized, desiring to withdraw its circulating notes, upon a deposit of lawful money with the Treasurer of the United States, as provided in section four of the act of June twentieth, eighteen hundred and seventy-four, entitled, "An Act fixing the amount of United States notes, providing for a redistribution of National bank currency and for other purposes," or as provided in this act, is authorized to deposit lawful money and withdraw a proportionate amount of the bonds held as security for its circulating notes in the order of such deposits; and no National bank which makes any deposit of lawful money in order to withdraw its circulating notes shall be entitled to receive any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid; Provided, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose; And provided further, That the provisions of this section shall not apply to bonds called for redemption by the Secretary of the Treasury, nor to the withdrawal of circulating notes in consequence thereof.

Sec. 5168. (Comptroller to determine if associations can commence business.) Whenever a certificate is transmitted to the Comptroller of the Currency, as provided in this title, and the association transmitting the same notifies the Comptroller that

at least fifty per centum of its capital stock has been duly paid in, and that such association has complied with all the provisions of this title required to be complied with before an association shall be authorized to commence the business of banking, the Comptroller shall examine into the condition of such association, ascertain especially the amount of money paid in on account of its capital, the name and place of residence of each of its directors, and the amount of the capital stock of which each is the owner in good faith, and generally whether such association has complied with all the provisions of this title required to entitle it to engage in the business of banking; and shall cause to be made and attested by the oaths of a majority of the directors, and by the president or cashier of the association, a statement of all the facts necessary to enable the Comptroller to determine whether the association is lawfully entitled to commence the business of banking.

Sec. 5169. (Certificate of authority to commence banking to be issued.) If upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the Comptroller, whether by means of a special commission appointed by him for the purpose of inquiring into the condition of such association, or otherwise, it appears that such association is lawfully entitled to commence the business of banking, the Comptroller shall give to such association a certificate, under his hand and official seal, that such association has complied with all the provisions required to be complied with before commencing the business of banking, and that such association is authorized to commence such business. But

the Comptroller may withhold from an association his certificate authorizing the commencement of business, whenever he has reason to suppose that the shareholders have formed the same for any other than the legitimate objects contemplated by this title.

Sec. 5170. (Publication of certificate.) The association shall cause the certificate issued under the preceding section to be published in some newspaper printed in the city or county where the association is located for at least sixty days next after the issuing thereof; or, if the newspaper is published in such city or county, then in the newspaper published nearest thereto.

Sec. 12. (Issue of circulating notes to banks—substitution of bonds.) That upon the deposit with the Treasurer of the United States, by any National banking association, of any bonds of the United States in the manner provided by existing law, such association shall be entitled to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited; and any National banking association now having bonds on deposit for the security of circulating notes, and upon which an amount of circulating notes has been issued less than the par value of the bonds, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the circulating notes held by such association to the par value of the bonds deposited, such additional notes to be held and treated in the same

way ~~as~~ circulating notes of National banking associations heretofore issued, and subject to all the provisions of law affecting such notes; Provided, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven of the Revised Statutes of the United States, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security; And provided further, That the circulating may substitute the two per centum bonds issued under the provisions of this Act shall be of the denominations prescribed by law, except that no National banking association shall, after the passage of this Act, be entitled to receive from the Comptroller of the Currency, or to issue or reissue or place in circulation more than one-third in amount of its circulating notes of the denomination of five dollars; And provided further, That the total amount of such notes issued to any such association may equal at any time but shall not exceed the amount at such time of its capital stock actually paid in; And provided further, That under regulations to be prescribed by the Secretary of the Treasury any National banking association may substitute the two per centum bonds issued under the provisions of this Act for any of the bonds deposited with the Treasurer to secure circulation or to secure deposits of public money; and so much of an Act entitled, "An Act to enable National banking associations to extend their corporate exis-

tence, and for no other purposes," approved July twelfth, eighteen hundred and eighty-two, as prohibits any National bank which makes any deposit of lawful money in order to withdraw its circulating notes from receiving any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid, is hereby repealed, and all other Acts or parts of Acts inconsistent with the provisions of this section are hereby repealed.

Sec. 5172. (Printing, denominations, and form of the circulating notes.) In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered, such quantity of circulating notes, in blank, of the denominations of one dollar, two dollars, three dollars, five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, and one thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall express upon their face that they are secured by United States bonds, deposited with the Treasurer of the United States, by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasury; and shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signatures of the president or vice-president and cashier; and shall bear such devices and such other statements, and shall

be in such form, as the Secretary of the Treasury shall, by regulation, direct.

Sec. 5. (Charter numbers to be on notes.) That the Comptroller of the Currency shall, under such rules and regulations as the Secretary of the Treasury may prescribe, cause the charter numbers of the association to be printed upon all National bank notes which may be hereafter issued by him.

Sec. 1. (Bank notes to be printed on distinctive paper.) That the National bank notes shall be printed under the direction of the Secretary of the Treasury, and upon the distinctive or special paper which has been, or may be hereafter, adopted by him for printing United States notes.

Sec. 5173. (Plates and dies to be under control of Comptroller.) The plates and special dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expenses necessarily incurred in executing the laws respecting the procuring of such notes, and all other expenses of the Bureau of the Currency, shall be paid out of the proceeds of the taxes or duties assessed and collected on the circulation of National banking associations under this title.

Sec. 5174. (Annual examination of plates, dies, etc.) The Comptroller of the Currency shall cause to be examined, each year, the plates, dies, bed-pieces and other material from which the National bank circulation is printed, in whole or in part, and file in his office annually a correct list of the same. Such material as shall have been used in the printing of the notes of associations which are in liquidation, or

have closed business shall be destroyed under such regulations as shall be prescribed by the Comptroller of the Currency and approved by the Secretary of the Treasury. The expenses of any such examination or destruction shall be paid out of any appropriation made by Congress for the special examination of National banks and bank-note plates.

Sec. 5175. (Limit to issue of notes under five dollars.) Not more than one-sixth part of the notes furnished to any association shall be of a less denomination than five dollars. After specie payments are resumed no association shall be furnished with the notes of a less denomination than five dollars.

Sec. 5182. (For what demands National bank notes may be received.) After any association receiving circulating notes under this title has caused to pay such notes on demand to be signed by the president or vice-president and cashier thereof, in such manner as to make them obligatory promissory notes, payable on demand, at its place of business, such association may issue and circulate the same as money. And the same shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to the United States, except duties on imports; and also for all salaries and other debts and demands owing by the United States to individuals, corporations and associations within the United States, except interest on the public debt, and in redemption of the national currency.

Sec. 5183. (Issue of other notes prohibited.) No National banking association shall issue post notes or any other notes to circulate as money than

such as are authorized by the provisions of this title.

Sec. 5184. (Destroying and replacing worn-out and mutilated notes.) It shall be the duty of the Comptroller of the Currency to receive worn-out or mutilated circulating notes issued by any banking association, and also, on due proof of the destruction of any such circulating notes to deliver in place thereof to the association other blank circulating notes to an equal amount. Such worn-out or mutilated notes, after a memorandum has been entered in the proper books, in accordance with such regulations as may be established by the Comptroller, as well as all circulating notes which shall have been paid or surrendered to be canceled, shall be burned to ashes in presence of four persons, one to be appointed by the Secretary of the Treasury, one by the Comptroller of the Currency, one by the Treasurer of the United States, and one by the association, under such regulations as the Secretary of the Treasury may prescribe. A certificate of such burning signed by the parties so appointed shall be made in the books of the Comptroller, and a duplicate thereof forwarded to the association whose notes are thus canceled.

Sec. 5185. (Organization of associations to issue gold-notes authorized.) Associations may be organized in the manner prescribed by this title for the purpose of issuing notes payable in gold; and upon the deposit of any United States bonds bearing interest payable in gold with the Treasurer of the United States, in the manner prescribed for other associations, it shall be lawful for the Comptroller of the Currency to issue to the association making the de-

posit circulating notes of different denominations, but none of them of less than five bonds deposited, which shall express the promise of the association to pay them, upon presentation at the office at which they are issued, in gold coin of the United States, and shall be so redeemable. But no such association shall have a circulation of more than one million dollars.

(Removal of limit of circulation of gold note banks.) That so much of section five thousand one hundred and eighty-five of the Revised Statutes of the United States as limits the circulation of banking associations, organized for the purpose of issuing notes payable in gold, severally in one million dollars, be, and the same is hereby, repealed; and each of such existing banking associations may increase its circulating notes, and new banking associations may be organized in accordance with existing law, without respect to such limitation.

Sec. 5186. (Their lawful money reserve, and duty of receiving notes of other associations.) Every association organized under the preceding section shall at all times keep on hand not less than twenty-five per centum of its outstanding circulation, in gold or silver coin of the United States; and shall receive at par in the payment of debts the gold notes of every other such association which at the time of such payment is redeeming its circulating notes in gold coin of the United States, and shall be subject to all the provisions of this title; Provided, That in applying the same to associations organized for issuing gold notes, the terms "lawful money" and "lawful money of the United States" shall be construed to mean gold or silver coin of the United States; and the cir-

ulation of such associations shall not be within the limitation of circulation mentioned in this title.

Sec. 5187. (Penalty for issuing circulating notes to unauthorized associations.) No officer acting under the provisions of this title shall countersign or deliver to any association, or to any other company or person, any circulating notes contemplated by this title, except in accordance with the true intent and meaning of its provisions. Every officer who violates this section shall be deemed guilty of a high misdemeanor, and shall be fined not more than double the amount so countersigned and delivered, and imprisoned not less than one year and not more than fifteen years.

Sec. 5188. (Penalty for imitating National bank notes, etc.) It shall not be lawful to design, engrave, print, or in any manner make or execute, or to utter, issue, distribute, circulate, or use, any business or professional card, notice, placard, circular, hand-bill, or advertisement, in the likeness or similitude of any circulating note or other obligation or security of any banking association organized or acting under the laws of the United States which has been or may be issued under this title, or any act of Congress, or to write, print, or otherwise impress upon any such note, obligation, or security any business or professional card, notice or advertisement, or any notice or advertisement of any matter or thing whatever. Every person who violates this section shall be liable to a penalty of one hundred dollars, recoverable one-half to the use of the informer.

Sec. 5189. (Penalty for defacing, etc., National bank notes.) Every person who mutilates, cuts, de-

faces, disfigures, or perforates with holes, or unites or cements together, or does any other thing to any bank bill, draft, note, or other evidence of debt, issued by any National banking association, or who causes or procures the same to be done, with intent to render such bank bill, draft, note, or other evidence of debt unfit to be reissued by said association, shall be liable to a penalty of fifty dollars, recoverable by the association.

Sec. 5190. (Place of business.) The usual business of each National banking association shall be transacted at an office or banking house located in the place specified in its organization certificate.

Sec. 5191. ("Lawful money reserve" prescribed.) Every National banking association in either of the following cities, Albany, Baltimore, Boston, Cincinnati, Chicago, Cleveland, Detroit, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Pittsburg, St. Louis, San Francisco, and Washington, shall at all times have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of its notes in circulation and its deposits; and every other association shall at all times have on hand, in lawful money of the United States, an amount equal to at least fifteen per centum of the aggregate amount of its notes in circulation and of its deposits. Whenever the lawful money of any association in any of the cities named shall be below the amount of twenty-five per centum of its circulation and deposits and whenever the lawful money of any other association shall be below fifteen per centum of its circulation and deposits, such association shall not

increase its liabilities by making any new loans or discounts otherwise than by discounting or purchasing bills of exchange payable at sight, nor make any dividend of its profits until the required proportion between the aggregate amount of its outstanding notes of circulation and deposits and its lawful money of the United States has been restored. And the Comptroller of the Currency may notify any association whose lawful money reserve shall be below the amount above required to be kept on hand, to make good such reserve; and if such association shall fail for thirty days thereafter so to make good its reserve of lawful money the Comptroller may, with the concurrence of the Secretary of the Treasury, appoint a receiver to wind up the business of the association, as provided in section fifty-two hundred and thirty-four.

Sec. 5192. (What may be counted toward the "lawful money reserve.") Three-fifths of the reserve of fifteen per centum required by the preceding section to be kept may consist of balance due to an association, available for the redemption of its circulating notes, from associations approved by the Comptroller of the Currency, organized under the act of June three, eighteen hundred and sixty-four, or under this title, and doing business in the cities of Albany, Baltimore, Boston, Charleston, Chicago, Cincinnati, Cleveland, Pittsburg, Richmond, St. Louis, San Francisco, and Washington, Louisville, Milwaukee, New Orleans, New York, Philadelphia, Clearing-house certificates, representing specie or lawful money specially deposited for the purpose of any clearing-house association, shall also be deemed

to be lawful money in the possession of any association belonging to such clearing-house holding and owning such certificate, within the preceding section.

Sec. 5194. (Limitation on the power to issue such certificates.) The power conferred on the Secretary of the Treasury, by the preceding section, shall not be exercised so as to create any expansion or contraction of the currency. And United States notes for which certificates are issued under that section, or other United States notes of like amount, shall be held as special deposits in the Treasury, and used only for the redemption of such certificates.

Sec. 12. (Gold certificates and silver certificates as part of lawful reserve.) That the Secretary of the Treasury is authorized and directed to receive deposits of gold coin with the Treasurer or assistant treasurers of the United States, in sums not less than twenty dollars, and to issue certificates therefor in denominations of not less than twenty dollars each, corresponding with the denominations of United States notes. The coin deposited for or representing the certificates of deposits shall be retained in the Treasury for the payment of the same on demand. Such certificates shall be receivable for customs, taxes, and all public dues, and when so received may be reissued; and such certificates, as also silver certificates, when held by any National banking association, shall be counted as part of its lawful reserve; and no National banking association shall be a member of any clearing house in which such certificates shall not be receivable in the settlement of clearing-house balances; Provided, That the Secretary of the Treasury shall suspend the issue of such gold certifi-

icates whenever the amount of gold coin and gold bullion in the Treasury reserved for the redemption of United States notes falls below one hundred millions of dollars; and the provisions of section fifty-two hundred and seven of the Revised Statutes shall be applicable to the certificates herein authorized and directed to be issued.

Sec. 2. (Lawful money reserve determined by amount of deposits.) That section thirty-one of the (sic) "the National bank act" be so amended that the several associations therein provided for shall not hereafter be required to keep on hand any amount of money whatever, by reason of the amount of their respective circulations; but the moneys required by said section to be kept at all times on hand shall be determined by the amount of deposits in all respects, as provided for in the said section.

Sec. 3. (Five per cent of reserve deposit to redeem circulation—mutilated notes—cost of transportation.) That every association organized or to be organized under the provisions of the said act, and of the several acts amendatory thereof, shall at all times keep and have on deposit in the Treasury of the United States, in lawful money of the United States, a sum equal to five per centum of its circulation, to be held and used for the redemption of such circulation; which sum shall be counted as a part of its lawful reserve, as provided in section two of this act; and when the circulating notes of any such associations, assorted and unassorted, shall be presented for redemption, in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in United States

notes. All notes so redeemed shall be charged by the Treasurer of the United States to the respective associations issuing the same, and he shall notify them severally, on the first day of each month, or oftener, at his discretion, of the amount of such redemptions; and whenever such redemptions for any association shall amount to the sum of five hundred dollars, such association so notified shall forthwith deposit with the Treasurer of the United States a sum in United States notes equal to the amount of its circulating notes so redeemed. And all notes of National banks worn, defaced, mutilated, or otherwise unfit for circulation shall, when received by any assistant treasurer or any designated depository of the United States, be forwarded to the Treasurer of the United States for redemption as provided herein. And when such redemptions have been so reimbursed, the circulating notes so redeemed shall be forwarded to the respective associations by which they were issued; but if any of such notes are worn, mutilated, defaced, or rendered otherwise unfit for use, they shall be forwarded to the Comptroller of the Currency and destroyed and replaced as now provided by law; Provided, That each of said associations shall reimburse to the Treasury the charges for transportation, and the costs for assorting such notes; and the associations hereafter organized shall also severally reimburse to the Treasury the cost of engraving such plates as shall be ordered by each association respectively; and the amount assessed upon each association shall be in proportion to the circulation redeemed, and be charged to the fund on deposit with the Treasurer; And provided further,

That so much of section thirty-two of said National bank act requiring or permitting the redemption of its circulating notes elsewhere than at its own counter, except as provided for in this section, is hereby repealed.

Sec. 3. (Reimbursement of Treasury for cost of redemption, etc., of bank notes.) That to carry into effect the provisions of section three of the act entitled, "An Act fixing the amount of United States notes, providing for a redistribution of the National bank currency, and for other purposes," approved June twentieth, eighteen hundred and seventy-four, the Secretary of the Treasury is authorized to appoint the following force, to be employed under his direction, namely, in the office of the Treasurer: in the office of the Comptroller of the Currency:

And at the end of each month the Secretary of the Treasury shall reimburse the Treasury to the full amount paid out under the provisions of this section by transfer of said amount from the deposit of the National banking associations with the Treasury of the United States; and at the end of each fiscal year he shall transfer from said deposit to the Treasury of the United States such sum as may have been actually expended under his direction for stationery, rent, fuel, light and other necessary incidental expenses which have been incurred in carrying into effect the (sic) provisions of the said section of the above named act.

Sec. 6. (Disposal of deposits for redemption of circulation.) That upon the passage of this act the balance standing with the Treasurer of the United

States to the respective credits of National banks for deposits made to redeem the circulating notes of such banks, and all deposits thereafter received for like purpose, shall be covered into the Treasury as a miscellaneous receipt, and the Treasury (sic) of the United States shall redeem from the general cash in the Treasury the circulating notes of said banks which may come into his possession subject to redemption; and upon the certificate of the Comptroller of the Currency that such notes have been received by him and that they have been destroyed and that no new notes will be issued in their place, reimbursement of their amount shall be made to the Treasurer, under such regulation as the Secretary of the Treasury may prescribe from an appropriation hereby created, to be known as "National bank notes; Redemption account," but the provisions of this act shall not apply to the deposits received under section three of the act of June twentieth, eighteen hundred and seventy-four, requiring every National bank to keep in lawful money with the Treasurer of the United States a sum equal to five per centum of its circulation, to be held and used for the redemption of its circulating notes; and the balance remaining of the deposits so covered shall, at the close of each month, be reported on the monthly public debt statement as debt of the United States bearing no interest.

(Redemption of National bank notes lost or stolen and without proper signatures.) That the provisions of the Revised Statutes of the United States, providing for the redemption of National bank notes, shall apply to all National bank notes that have been or may be issued to, or received by, any National

bank, notwithstanding such notes may have been lost or stolen from the bank and put in circulation without the signature or upon the forged signature of the president or vice-president and cashier.

Sec. 5195. (Place for redemption of circulating notes to be designated.) Each association organized in any of the cities named in section fifty-one hundred and ninety-one shall select, subject to the approval of the Comptroller of the Currency, an association in the city of New York, at which it will redeem its circulating notes at par; and may keep one-half of its lawful money reserve in cash deposits in the city of New York. But the foregoing provision shall not apply to associations organized and located in the city of San Francisco for the purpose of issuing notes payable in gold. Each association not organized within the cities named shall select, subject to the approval of the Comptroller, an association in either of the cities named, at which it will redeem its circulating notes at par. The Comptroller shall give public notice of the names of the associations selected, at which redemptions are to be made by the respective associations, and of any change that may be made of the association at which the notes of any association are redeemed. Whenever any association fails either to make the selection or to redeem its notes as aforesaid, the Comptroller of the Currency may, upon receiving satisfactory evidence thereof, appoint a receiver, in the manner provided for in section fifty-two hundred and thirty-four, to wind up its affairs. But this section shall not relieve any association from its liability to redeem its circulating notes at its own counter, at par, in lawful money on demand.

Sec. 1. (Additional reserve cities.) That whenever three-fourths in number of the National banks located in any city of the United States having a population of fifty thousand people shall make application to the Comptroller of the Currency, in writing, asking that the name of the city in which such banks are located shall be added to the cities named in sections fifty-one hundred and ninety-one and fifty-one hundred and ninety-two of the Revised Statutes, the Comptroller shall have authority to grant such request, and every bank located in such city shall at all times thereafter have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of its deposits, as provided in section fifty-one hundred and ninety-five of the Revised Statutes.

Sec. 2. (Additional central reserve cities.) That whenever three-fourths in number of the National banks located in any city of the United States having a population of two hundred thousand people shall make application to the Comptroller of the Currency, in writing, asking that such city may be a central reserve city, like the city of New York, in which one-half of the lawful money reserve of the National banks located in other reserve cities may be deposited, as provided in section fifty-one hundred and ninety-five of the Revised Statutes, the Comptroller shall have authority, with the approval of the Secretary of the Treasury, to grant such request, and every bank located in such city shall at all times thereafter have on hand, in lawful money of the United States, twenty-five per centum of its deposits,

as provided in section fifty-one hundred and ninety-one of the Revised Statutes.

Sec. 5196. (National banks to receive notes of other National banks.) Every National banking association formed or existing under the title shall take and receive at par, for any debt or liability to it, any and all notes or bills issued by any lawfully organized National banking association. But this provision shall not apply to any association organized for the purpose of issuing notes payable in gold.

Sec. 5197. (Limitation upon rate of interest which may be taken.) Any association may take, receive, reserve, and charge on any loan or discount made, or upon any note, bill of exchange, or other evidences of debt, interest at the rate allowed by the laws of the State, Territory, or district where the bank is located, and no more, except that where by the laws of any State a different rate is limited for banks of issue organized under State laws, the rate so limited shall be allowed for associations organized or existing in any such State under this title. When no rate is fixed by the laws of the State, Territory, or district, the bank may take, receive, reserve, or charge a rate not exceeding seven per centum, and such interest may be taken in advance, reckoning the days for which the note, bill, or other evidence of debt has to run. And the purchase, discount, or sale of a bona-fide bill of exchange, payable at another place than the place of such purchase, discount, or sale, at not more than the current rate of exchange for sight-drafts in addition to the interest, shall not be considered as taking or receiving a greater rate of interest.

Sec. 5198. (Consequences of taking usurious interest.) The taking, receiving, reserving, or charging a rate of interest greater than is allowed by the preceding section, when knowingly done, shall be deemed a forfeiture of the entire interest which the note, bill, or other evidence of debt carries with it, or which has been agreed to be paid thereon. In case the greater rate of interest has been paid, the person by whom it has been paid, or his legal representative, may recover back, in an action in the nature of an action of debt, twice the amount of the interest thus paid from the association taking or receiving the same, provided such action is commenced within two years from the time the usurious transaction occurred. That suits, actions and proceedings against any association under this title may be had in any circuit, district, or territorial court of the United States held within the district in which such association may be established, or in any State, county, or municipal court in the county or city in which said association is located having jurisdiction in similar cases.

Sec. 5199. (Dividends.) The directors of any association may, semiannually declare a dividend of so much of the profits of the association as they shall judge expedient; but each association shall, before the declaration of a dividend, carry one-tenth part of its net profits of the preceding half-year to its surplus fund until the same shall amount to twenty per centum of its capital stock.

Sec. 5200. (Limit to liabilities which may be incurred by any one person, etc.) The total liabilities to any association, or any person or of any company,

corporation, or firm for money borrowed, including in the liabilities of a company or firm the liabilities of the several members thereof, shall at no time exceed one-tenth part of the amount of the capital stock of such association actually paid in. But the discount of bills of exchange drawn in good faith against actually existing values, and the discount of commercial or business paper actually owned by the person negotiating the same, shall not be considered as money borrowed.

Sec. 5201. (Associations not to loan or purchase their own stock.) No association shall make any loan or discount on the security of the shares of its own capital stock, nor be the purchaser or holder of any such shares, unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock so purchased or acquired shall, within six months from the time of its purchase, be sold or disposed of at public or private sale; or, in default thereof, a receiver may be appointed to close up the business of the association, according to section fifty-two hundred and thirty-four.

Sec. 5202. (Limit upon indebtedness to be incurred.) No association shall at any time be indebted, or in any way liable to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association, or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserved profits.

Sec. 5203. (Restriction upon use of circulating notes.) No association shall, either directly or indirectly, pledge, or hypothecate any of its notes or circulation, for the purpose of procuring money to be paid in on its capital stock, or to be used in its banking operations, or otherwise; nor shall any association use its circulating notes, or any part thereof, in any manner or form, to create or increase its capital stock.

Sec. 5204. (Prohibition upon withdrawal of capital.) No association, or any member thereof, shall, during the time it shall continue its banking operations, withdraw, or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. If losses have at any time been sustained by any such association, equal to or exceeding its undivided profits then on hand, no dividend shall be paid; and no dividend shall ever be made by any association while it continues its banking operations to any amount greater than its net profits then on hand, deducting therefrom its losses and bad debts. All debts due to any associations, on which interest is past due and unpaid for a period of six months, unless the same are well secured, and in process of collection, shall be considered bad debts within the meaning of this section. But nothing in this section shall prevent the reduction of the capital

stock of the association under section fifty-one hundred and forty-three.

Sec. 5205. (Enforcing payment of deficiency in capital stock.) Every association which shall have failed to pay up its capital stock, as required by law, and every association whose capital stock shall have become impaired by losses or otherwise, shall, within three months after receiving notice thereof from the Comptroller of the Currency, pay the deficiency in the capital stock by assessment upon the shareholders pro rata for the amount of capital stock held by each; and the Treasurer of the United States shall withhold the interest upon all bonds held by him in trust for any such association, upon notification from the Comptroller of the Currency, until otherwise notified by him. If any such association shall fail to pay up its capital stock, and shall refuse to go into liquidation, as provided by law, for three months after receiving notice from the Comptroller, a receiver may be appointed to close up the business of the association, according to the provisions of section fifty-two hundred and thirty-four. And provided, That if any shareholder or shareholders of such bank shall neglect or refuse, after three months' notice, to pay the assessment, as provided in this section, it shall be the duty of the board of directors to cause sufficient amount of the capital stock of such shareholder or shareholders to be sold at public auction (after thirty days' notice shall be given by posting such notice of sale in the office of the bank, and by publishing such notice in a newspaper of the city or town in which the bank is located, or in a newspaper published near to, to make good the deficiency, and

the balance, if any, shall be returned to such delinquent shareholder or shareholders.

Sec. 5206. (Restriction upon use of notes of other banks.) No association shall at any time pay out on loans or discounts, or in purchasing drafts or bills of exchange, or in payment of deposits, or in any other mode pay or put in circulation, the notes of any bank or banking association which are not, at any such time, receivable, at par, on deposit, and in payment of debts by the association so paying out or circulating such notes; nor shall any association knowingly pay out or put in circulation any notes issued by any bank or banking association which at the time of such paying out or putting in circulation is not redeeming its circulating notes in lawful money of the United States.

Sec. 5207. (United States notes not to be held as collateral, etc.; penalty.) No association shall hereafter offer or receive United States notes or National bank notes as security or as collateral security for any loan of money, or for a consideration agree to withhold the same from use, or offer or receive the custody or promise of custody of such notes as security, or as collateral security, or consideration for any loan of money. Any association offending against the provisions of this section shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and ■ further sum equal to one-third of the money so loaned. The officer or officers of any association who shall make any such loan shall be liable for a further sum equal to one-quarter of the money loaned; and any fine or penalty incurred

by a violation of this section shall be recoverable for the benefit of the party bringing such suit.

Sec. 5208. (Penalty for falsely certifying checks.) It shall be unlawful for any officer, clerk, or agent of any National banking association to certify any check drawn upon the association unless the person or company drawing the check has on deposit with the association, at the time such check is certified, an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against the association; but the act of any officer, clerk, or agent of any association, in violation of this section, shall subject such bank to the liabilities and proceedings on the part of the Comptroller as provided for in section fifty-two hundred and thirty-four.

Sec. 13. (Punishment for falsely certifying checks, etc.) That any officer, clerk, or agent of any National banking association who shall willfully violate the provisions of an act entitled "An Act in reference to certifying checks by National banks," approved March third, eighteen hundred and sixty-nine, being section fifty-two hundred and eight of the Revised Statutes of the United States, or who shall resort to any device, or receive any fictitious obligation, direct or collateral, in order to evade the provisions thereof, or who shall certify checks before the amount thereof shall have been regularly entered to the credit of the dealer upon the books of the banking association, shall be deemed guilty of a misdemeanor, and shall, on conviction thereof in any circuit or district court of the United States, be fined

not more than five thousand dollars, or shall be imprisoned not more than five years, or both, in the discretion of the court.

Sec. 5209. (Embezzlement; penalty.) Every president, director, cashier, teller, clerk, or agent of any association, who embezzles, abstracts, or willfully misapplies any of the moneys, funds, or credits of the association; or who, without authority from the directors, issues or puts in circulation any of the notes of the association; or who, without such authority, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of the association, with intent, in either case, to injure or defraud the association or any other company, body politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association; and every person who with like intent aids or abets any officer, clerk, or agent in any violation of this section, shall be deemed guilty of a misdemeanor, and shall be imprisoned not less than five years nor more than ten.

Sec. 5210. (List of shareholders, etc., to be kept.) The president and cashier of every National banking association shall cause to be kept at all times a full and correct list of the names and residences of all the shareholders in the association, and the number of shares held by each, in the office where its business is transacted. Such list shall be subject to the inspection of all the shareholders and creditors

of the association, and the officers authorized to assess taxes under State authority, during business hours of each day in which business may be legally transacted. A copy of such list, on the first Monday of July of each year, verified by the oath of such president or cashier, shall be transmitted to the Comptroller of the Currency.

Sec. 5211. (Reports to Comptroller of the Currency.) Every association shall make to the Comptroller of the Currency not less than five reports during each year, according to the form which may be prescribed by him, verified by the oath or affirmation of the president or cashier of such association, and attested by the signature of at least three of the directors. Each such report shall exhibit, in detail and under appropriate heads, the resources and liabilities of the association at the close of business on any past day by him specified; and shall be transmitted to the Comptroller within five days after the receipt of a request or requisition from him, and in the same form in which it is made to the Comptroller shall be published in a newspaper published in the place where such association is established, or if there is no newspaper in the place, then in the one published nearest thereto in the same county, at the expense of the association; and such proof of publication shall be furnished as may be required by the Comptroller. The Comptroller shall also have power to call for special reports from any particular association whenever in his judgment the same are necessary in order to have a full and complete knowledge of its condition.

Sec. 5212. (Reports ■■ to dividends.) In addi-

tion to the reports required by the preceding section, each association shall report to the Comptroller of the Currency, within ten days after declaring any dividend, the amount of such dividend, and the amount of net earnings in excess of such dividend. Such reports shall be attested by the oath of the president or cashier of the association.

Sec. 5213. (Penalty for failure to make reports.) Every association which fails to make and transmit any report required under either of the two preceding sections shall be subject to a penalty of one hundred dollars for each day after the periods, respectively, therein mentioned, that it delays to make and transmit its report. Whenever any association delays or refuses to pay the penalty herein imposed, after it has been assessed by the Comptroller of the Currency, the amount thereof may be retained by the Treasurer of the United States, upon the order of the Comptroller of the Currency, out of the interest, as it may become due to the association, on the bonds deposited with him to secure circulation. All sums of money collected for penalties under this section shall be paid into the Treasury of the United States.

Sec. 6. (Reports of savings and trust companies.) That all savings banks or savings and trust companies organized under authority or any act of Congress shall be, and are hereby, required to make, to the Comptroller of the Currency, and publish, all the reports which National banking associations are required to make and publish under the provisions of sections fifty two hundred and eleven, fifty-two hundred and twelve, and fifty-two hundred and thirteen, of the Revised Statutes, and shall be

subject to the same penalties for failure to make or publish such reports as are therein provided; which penalty may be collected by suit before any court of the United States, in the district in which said savings banks or savings and trust companies may be located. And all savings or other banks now organized, or which shall hereafter be organized, in the District of Columbia, under any act of Congress, which shall have capital stock paid up in whole or in part, shall be subject to all the provisions of the Revised Statutes, and of all acts of Congress applicable to National banking associations, so far as the same may be applicable to such savings or other banks; Provided, That such savings banks now established shall not be required to have a paid-in capital exceeding one hundred thousand dollars.

Sec. 5214. (Duties payable to the United States.) (Amended by Act of May 30, 1908.) (See section —.)

Sec. 5215. (Half-yearly return of circulation, deposits, and capital stock.) In order to enable the Treasurer to assess the duties imposed by the preceding section, each association shall, within ten days from the first days of January and July of each year, make a return, under the oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average amount of its notes in circulation, and of the average amount of its deposits, and of the average amount of its capital stock, beyond the amount invested in United States bonds, for the six months next preceding the most recent first day of January or July. Every association which fails so to make

such return shall be liable to a penalty of two hundred dollars, to be collected either out of the interest as it may become due such association on the bonds deposited with the Treasurer, or, at his option, in the manner in which penalties are to be collected of other corporations under the laws of the United States.

Sec. 5216. (Penalty for failure to make return.) Whenever any association fails to make the half-yearly return required by the preceding section, the duties to be paid by such association shall be assessed upon the amount of notes delivered to such association by the Comptroller of the Currency, and upon the highest amount of its deposits and capital stock, to be ascertained in such manner as the Treasurer may deem best.

Sec. 5217. (Penalty for failure to pay duties.) Whenever an association fails to pay the duties imposed by the three preceding sections, the sums due may be collected in a manner provided for the collection of United States taxes from other corporations; or the Treasurer may reserve the amount out of the interest, as it may become due, on the bonds deposited with him by such defaulting association.

Sec. 5218. (Refunding excessive duties.) In all cases where an association has paid or may pay in excess of what may be or has been found due from it, on account of the duty required to be paid to the Treasurer of the United States, the association may state an account therefor, which, on being certified by the Treasurer of the United States, and found correct by the First Comptroller of the Treasury,

shall be refunded in the ordinary manner by warrant on the Treasury.

Sec. 5219. (State Taxation.) Nothing herein shall prevent all the shares in any association from being included in the valuation of the personal property of the owner or holder of such shares, in assessing taxes imposed by authority of the State within which the association is located; but the legislature of each State may determine and direct the manner and place of taxing all the shares of National banking associations located within the State, subject only to the two restrictions, that the taxation shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such State, and that the shares of any National banking association owned by non-residents of any State shall be taxed in the city or town where the bank is located, and not elsewhere. Nothing herein shall be construed to exempt the real property of association from either State, county, or municipal taxes, to the same extent, according to its value, as other real property is taxed.

Sec. 5220. (Voluntary dissolution of association.) Any association may go into liquidation and be closed by the vote of its shareholders owning two-thirds of its stock.

Sec. 5221. (Notice of intent to dissolve.) Whenever a vote is taken to go into liquidation it shall be the duty of the board of directors to cause notice of this fact to be certified, under the seal of the association, by its president or cashier, to the Comptroller of the Currency, and publication thereof to be made for a period of two months in a newspaper published

in the city of New York, and also in a newspaper published in the city or town in which the association is located, or if no newspaper is there published, then in the newspaper published nearest thereto, that the association is closing up its affairs, and notify the holders of its notes, and other creditors to present the notes and other claims against the association for payment.

Sec. 5222. (Deposit of lawful money to redeem outstanding circulation.) Within six months from date of the vote to go into liquidation, the association shall deposit with the Treasurer of the United States, lawful money of the United States sufficient to redeem all its outstanding circulation. The Treasurer shall execute duplicate receipts for money thus deposited, and deliver one to the association and the other to the Comptroller of the Currency, stating the amount received by him, and the purpose for which it has been received; and the money shall be paid into the Treasury of the United States, and placed to the credit of such association upon redemption account.

Sec. 5223. (Exemption as to an association consolidating with another.) An association which is in good faith winding up its business for the purpose of consolidating with another association shall not be required to deposit lawful money for its outstanding circulation; but its assets and liabilities shall be reported by the association with which it is in process of consolidation.

Sec. 5224. (Re-assignment of bonds and redemption of notes, etc.) Whenever a sufficient deposit of lawful money to redeem the outstanding circulation

of an association proposing to close its business has been made, the bonds deposited by the association to secure payment of its notes shall be reassigned to it, in the manner prescribed by section fifty-one hundred and sixty-two. And thereafter the association and its shareholders shall stand discharged from all liabilities upon the circulating notes, and those notes shall be redeemed at the Treasury of the United States. And if any such bank shall fail to make the deposit and take up its bonds for thirty days after the expiration of the time specified, the Comptroller of the Currency shall have power to sell the bonds pledged for the circulation of said bank, at public auction in New York City, and, after providing for the redemption and cancelation of said circulation, and the necessary expenses of the sale, to pay over any balance remaining to the bank or its legal representative.

Sec. 5225. (Destruction of redeemed notes.) Whenever the Treasurer has redeemed any of the notes of any association which has commenced to close its affairs under the five proceeding actions, he shall cause the notes to be mutilated and charged to the redemption account of the association; and all notes so redeemed by the Treasurer shall, every three months, be certified to and burned in the manner prescribed in section fifty-one hundred and eighty-four.

Sec. 5226. (Mode of protesting notes.) Whenever any National banking association fails to redeem in the lawful money of the United States any of its circulating notes, upon demand of payment duly made during the usual hours of business, at the

office of such association, or at its designated place of redemption, the holder may cause the same to be protested, in one package, by a notary public, unless the president or cashier of the association whose notes are presented for payment, or the president or the cashier of the association at the place at which they are redeemable offers to waive demand and notice of the protest, and, in pursuance of such offer, makes, signs, and delivers to the party making such demand an admission in writing, stating the time of the demand, the amount demanded, and the fact of the non-payment thereof. The notary public, on making such protest, or upon receiving such admission, shall forthwith forward such admission or notice of protest to the Comptroller of the Currency, retaining a copy thereof. If, however, satisfactory proof is produced to the notary public that the payment of the notes demanded is restrained by order of any court of competent jurisdiction, he shall not protest the same. When the holder of any notes causes more than one note of package to be protested on the same day, he shall not receive pay for more than one protest.

Sec. 5227. (Examination by special agent.) On receiving notice that any National banking association has failed to redeem any of its circulating notes, as specified in the preceding section, the Comptroller of the Currency, with the concurrence of the Secretary of the Treasury, may appoint a special agent, of whose appointment immediate notice shall be given to such association, who shall immediately proceed to ascertain whether it has refused to pay its circulating notes in the lawful money

of the United States, when demanded, and shall report to the Comptroller the fact so ascertained. If, from such protest, and the report so made, the Comptroller is satisfied that such association has refused to pay its circulating notes and is in default, he shall, within thirty days after he has received notice of such failure, declare the bonds deposited by such association forfeited to the United States, and they shall thereupon be so forfeited.

Sec. 5228. (Continuing business after default.) After a default on the part of an association to pay any of its circulating notes has been ascertained by the Comptroller, and notice thereof has been given by him to the association, it shall not be lawful for the association suffering the same to pay out any of its notes, discount any notes or bills, or otherwise prosecute the business of banking, except to receive and safely keep money belonging to it, and to deliver special deposits.

Sec. 5229. (Notice to holders—redemption of Treasury—cancellation of bonds.) Immediately upon declaring the bonds of an association forfeited for non-payment of its notes, the Comptroller shall give notice, in such manner as the Secretary of the Treasury shall, by general rules or otherwise, direct, to the holders of the circulating notes of such association, to present them for payment at the Treasury of the United States; and the same shall be paid as presented in lawful money of the United States; whereupon the Comptroller may, in his discretion, cancel an amount of bonds pledged by such association equal at current market rates, not exceeding that to the notes paid.

Sec. 5230. (Sale of bonds at auction.) Whenever the Comptroller has become satisfied, by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven, that any association has refused to pay its circulating notes, he may, instead of canceling its bonds, cause so much thereof as may be necessary to redeem its outstanding notes to be sold at public auction in the city of New York, after giving thirty days' notice of such sale to the association. For any deficiency in the proceeds of all the bonds of an association, when thus sold, to reimburse to the United States the amount expended in paying the circulating notes of the association, the United States shall have a paramount lien upon all of its assets; and such deficiency shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

Sec. 5231. (Sale of bonds at private sale.) The Comptroller may, if he deems it for the interest of the United States, sell at private sale any of the bonds of an association shown to have made default in paying its notes, and receive therefor either money or the circulating notes of the association. But no such bonds shall be sold by private sale for less than par, nor for less than the market value thereof at the time of sale; and no sales of any such bonds, either public or private, shall be complete until the transfer of the bonds shall have been made with the formalities prescribed by sections fifty-one hundred

and sixty-two, fifty-one hundred and sixty-three, and fifty-one hundred and sixty-four.

Sec. 5232. (Disposal of protested notes.) The Secretary of the Treasury may, from time to time, make such regulations respecting the disposition to be made of circulating notes after presentation at the Treasury of the United States for payment, and respecting the perpetuation of the evidence of the payment thereof, as may seem to him proper.

Sec. 5233. (Cancellation of National bank notes.) All notes of National banking associations presented at the Treasury of the United States for payment shall, on being paid, be cancelled.

Sec. 5234. (Appointment of receivers.) On becoming satisfied, as specified in sections fifty-two hundred and twenty-six and fifty-two hundred and twenty-seven, that any association has refused to pay its circulating notes as therein mentioned, and is in default, the Comptroller of the Currency may forthwith appoint a receiver, and require of him such bond and security as he deems proper. Such receiver, under the direction of the Comptroller, shall take possession of the books, records, and assets of every description of such association, collect all debts, dues, and claims belonging to it, and, upon the order of a court of record of competent jurisdiction, may sell or compound all bad or doubtful debts, and, on a like order, may sell all the real and personal property of such association, on such terms as the court shall direct; and may, if necessary to pay the debts of such association, enforce the individual liability of the stockholders. Such receiver shall pay over all money so made to the Treasurer of the

United States, subject to the order of the Comptroller, and also make report to the Comptroller of all his acts and proceedings.

Sec. 5235. (Notice to present claims.) The Comptroller shall, upon appointing a receiver, cause notice to be given, by advertisement in such newspapers as he may direct, for three consecutive months, calling on all persons who may have claims against such association to present the same, and to make legal proof thereof.

Sec. 5236. (Dividends.) From time to time, after full provision has been first made for refunding to the United States any deficiency in redeeming the notes of such association, the Comptroller shall make a ratable dividend of the money so paid over to him by such receiver on all such claims as may have been proved to his satisfaction or adjudicated in a court of competent jurisdiction, and, as the proceeds of the assets of such association are paid over to him, shall make further dividends on all claims previously proved or adjudicated; and the remainder of the proceeds, if any, shall be paid over to the shareholders of such association, or their legal representatives, in proportion to the stock by them respectively held.

Sec. 5237. (Injunction upon receivership.) Whenever an association against which proceedings have been instituted, on account of any alleged refusal to redeem its circulating notes as aforesaid, denies having failed to do so, it may, at any time within ten days after it has been notified of the appointment of an agent, as provided in section fifty-two hundred and twenty-seven, apply to the nearest

circuit, or district, or territorial court of the United States, to enjoin further proceedings in the premises; and such court, after citing the Comptroller of the Currency to show cause why further proceedings should not be enjoined, and after the decision of the court or finding of a jury that such association has not refused to redeem its circulating notes, when legally presented, in the lawful money of the United States, shall make an order enjoining the Comptroller and any receiver acting under his direction, from all further proceedings on account of such alleged refusal.

Sec. 5238. (Fees and expenses.) All fees for protesting the notes issued by any National banking association shall be paid by the person procuring the protest to be made, and such association shall be liable therefor; but no part of the bonds deposited by such association shall be applied to the payment of the fees. All expenses of any preliminary or other examinations into the condition of any association shall be paid by such association. All expenses of any receivership shall be paid out of the assets of such association before distribution of the proceeds thereof.

Sec. 5239. (Penalty for violation of this title.) If the directors of any National banking association shall knowingly violate, or knowingly permit any of the officers, agents, or servants of the association to violate any of the provisions of this title, all the rights, privileges, and franchises of the association shall be thereby forfeited. Such violation shall, however, be determined and adjudged by a proper circuit, district, or territorial court of the United

States, in a suit brought for that purpose by the Comptroller of the Currency, in his own name, before the association shall be declared dissolved. And in such cases of violation every director who participated in or assented to the same, shall be held liable in his personal and individual capacity for all damages which the association, its shareholders, or any other person, shall have sustained in consequence of such violation.

Act of June 30, 1876, Authorizing the Appointment of Receivers of National Banks.

(Sec. 1.) (Appointment of receiver, when authorized.) That whenever any National banking association shall be dissolved, and its rights, privileges, and franchises declared forfeited, as prescribed in section fifty-two hundred and thirty-nine of the Revised Statutes of the United States, or whenever any creditor of any National banking association shall have obtained a judgment against it in any court of record, and made application, accompanied by a certificate from the clerk of the court stating that such judgment has been rendered and has remained unpaid for the space of thirty days, or whenever the Comptroller shall become satisfied of the insolvency of a National banking association, he may, after due examination of its affairs, in either case, appoint a receiver, who shall proceed to close up such association, and enforce the personal liability of the shareholders, as provided in section fifty-two hundred and thirty-four of said statutes.

Sec. 3. (Winding up affairs—meeting of shareholders—election of agent—distribution of assets.)

That whenever any association shall have been or shall be placed in the hands of a receiver, as provided in section fifty-two hundred and thirty-four and other sections of the Revised Statutes of the United States, and when, as provided in section fifty-two hundred and thirty-six thereof, the Comptroller of the Currency shall have paid to each and every creditor of such association, not including shareholders who are creditors of such association, whose claim or claims as such creditor shall have been proved or allowed as therein prescribed, the full amount of such claims, and all expenses of the receivership and the redemption of the circulating notes of such association shall have been provided for by depositing lawful money of the United States with the Treasurer of the United States, the Comptroller of the Currency shall call a meeting of the shareholders of such association by giving notice thereof for thirty days in a newspaper published in the town, city, or county where the business of such association was carried on, or if no newspaper is there published, in the newspaper published nearest thereto. At such meeting the shareholders shall determine whether the receiver shall be continued and shall wind up the affairs of such association, or whether an agent shall be elected for that purpose, and in so determining the said shareholders shall vote by ballot, in person or by proxy, each share of stock entitling the holder to one vote, and the majority of the stock in value and the number of shares shall be necessary to determine whether the said receiver shall be continued, or whether an agent shall be elected. In case such majority shall determine

that the said receiver shall be continued, the said receiver shall thereupon proceed with the execution of his trust and shall sell, dispose of, or otherwise collect the assets of the said association, and shall possess all the powers and authority, and be subject to all the duties and liabilities originally conferred or imposed upon him by his appointment as such receiver, so far as the same remain applicable. In case the meeting shall, by the vote of a majority of the stock in value, and number of shares, determine that an agent shall be elected, the said meeting shall thereupon proceed to elect an agent, voting by ballot, in person or by proxy, each share of stock entitling the holder to one vote, and the person who shall receive votes representing at least a majority of stock in value and number shall be declared the agent for the purpose hereinafter provided; and whenever any of the shareholders of the association shall, after the election of such agent, have executed and filed a bond to the satisfaction of the Comptroller of the Currency, conditioned for the payment and discharge in full of each and every claim that may thereafter be proved and allowed by and before a competent court, and for the faithful performance of all and singular the duties of such trust, the Comptroller and the receiver shall thereupon transfer and deliver to such agent all the undivided or uncollected or other assets of such association then remaining in the hands or subject to the order and control of said Comptroller and said receiver, or either of them; and for this purpose said Comptroller and said receiver are hereby severally empowered and directed to execute any deed, assignment, transfer, or other in-

strument in writing that may be necessary and proper; and upon the execution and delivery of such instrument to the said agent the said Comptroller and the said receiver shall by virtue of this Act be discharged from any and all liabilities to such association and to each and all the creditors and shareholders thereof. Upon receiving such deed, assignment, transfer, or other instrument, the person elected such agent shall hold, control, and dispose of the assets and property of such association which he may receive under the terms hereof for the benefit of the shareholders of such association, and he may in his own name, or in the name of such association, sue and be sued and do all other lawful acts and things necessary to finally settle and distribute the assets and property in his hands, and may sell, compromise, or compound the debts due to such association, with the consent and approval of the circuit or district court of the United States, for the district where the business of such association was carried on, and shall at the conclusion of his trust render to such district or circuit court a full account of all his proceedings, receipts and expenditures as such agent, which court shall upon due notice settle and adjust such accounts and discharge said agent and the sureties upon said bond. And in case any such agent so elected shall refuse to serve, or die, resign, or be removed, any shareholder may call a meeting of the shareholders of such association in the town, city, or village where the business of the said association was carried on, by giving notice thereof for thirty days in a newspaper published in said town, city or village, or if no newspaper is there

published, in the newspaper published nearest thereto, at which meeting the shareholders shall elect an agent, voting by ballot, in person or by proxy, each share of stock entitling the holder to one vote, and when such agent shall have received votes representing at least a majority of the stock in value and number of shares, and shall have executed a bond to the shareholders conditioned for the faithful performance of his duties, in the penalty fixed by the shareholders at said meeting, with two sureties, to be approved by a judge of a court of record, and file said bond in the office of the clerk of a court of record in the county where the business of the association was carried on, he shall have all the rights, powers, and duties of the agent first elected as hereinbefore provided. At any meeting held as hereinbefore provided administrators or executors of deceased shareholders may act and sign as the decedent might have done if living, and guardians of minors and trustees of other persons may so act and sign for their ward or wards or cestui que trust. The proceeds of the assets or property of any such association which may be undistributed at the time of such meeting or may be subsequently received shall be distributed as follows: First. To pay the expenses of the execution of the trust to the date of such payment. Second. To repay any amount or amounts which have been paid in by any shareholder, or shareholders, of such association upon and by reason of any and all assessments made upon the stock of such association by the order of the Comptroller of the Currency in accordance with the provisions of the statutes of the United States; and Third. The balance ratably

among such stockholders, in proportion to the number of shares held and owned by each. Such distribution shall be made from time to time as the proceeds shall be received and as shall be deemed advisable by the said Comptroller or said agent.

Sec. 1. (Receiver may purchase property in which bank has equities by consent of Comptroller.) That whenever the receiver of any National bank, duly appointed by the Comptroller of the Currency, and who shall have duly qualified and entered upon the discharge of his trust, shall find it in his opinion necessary, in order to fully protect and benefit his said trust, to the extent of any and all equities that such trust may have in any property, real or personal, by reason of any bond, mortgage, assignment, or other proper legal claim attaching thereto, and which said property is to be sold under any execution, decree of foreclosure, or proper order of any court of jurisdiction, he may certify the facts in the case, together with his opinion as to the value of the property to be sold, and the value of the equity his said trust may have in the same, to the Comptroller of the Currency, together with a request for the right and authority to use and employ so much of the money of said trust as may be necessary to purchase such property at such sale.

Sec. 2. (Approval of Comptroller and Secretary of Treasury required.) That such request, if approved by the Comptroller of the Currency, shall be, together with the certificate of facts in the case, and his recommendation as to the amount of money which, in his judgment, should be so used and employed, submitted to the Secretary of the Treasury,

and if the same shall likewise be approved by him, the request shall be by the Comptroller of the Currency allowed, and notice thereof, with copies of the request, certificate of facts, and indorsement of approvals, shall be filed with the Treasurer of the United States.

Sec. 3. (Payments, how made.) That whenever any such request shall be allowed as hereinbefore provided, the said Comptroller of the Currency shall be, and is, empowered to draw from such funds of any such trust as may be deposited with the Treasurer of the United States for the benefit of the bank in interest, to the amount as may be recommended and allowed and for the purpose for which such allowance was made; Provided, however, That all payments to be made for or on account of the purchase of any such property, and under any such allowance shall be made by the Comptroller of the Currency direct, with the approval of the Secretary of the Treasury, for such purpose only and in such manner as he may determine and order.

Sec. 5240. (Appointment of occasional examiners.) The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall as often as shall be deemed necessary or proper, appoint a suitable person or persons to make an examination of the affairs of every banking association, who shall have power to make a thorough examination into all the affairs of the association, and, in doing so, to examine any of the officers and agents thereof on oath; and shall make a full and detailed report of the condition of the association to the Comptroller. That all persons appointed to be ex-

aminers of National banks not located in the redemption-cities specified in section five thousand one hundred and ninety-two of the Revised Statutes of the United States, or in any one of the States of Oregon, California, and Nevada, or in the Territories, shall receive compensation for such examination as follows: For examining National banks having a capital less than one hundred thousand dollars, twenty dollars; those having a capital of one hundred thousand dollars and less than three hundred thousand dollars, twenty-five dollars; those having a capital of three hundred thousand dollars and less than four hundred thousand dollars, thirty-five dollars; those having a capital of four hundred thousand dollars and less than five hundred thousand dollars, forty dollars; those having a capital of five hundred thousand dollars and less than six hundred thousand dollars, fifty dollars; those having a capital of six hundred thousand dollars and over, seventy-five dollars; which amounts shall be assessed by the Comptroller of the Currency upon, and paid by, the respective associations so examined; and shall be in lieu of the compensation and mileage heretofore allowed for making said examinations, and persons appointed to make examination of National banks in the cities named in section five thousand one hundred and ninety-two of the Revised Statutes of the United States, or in any one of the States of Oregon, California, and Nevada, or in the Territories, shall receive such compensation as may be fixed by the Secretary of the Treasury upon the recommendation of the Comptroller of the Currency; and the same shall

be assessed and paid in the manner hereinbefore provided.

Sec. 5241. (Limit of visitorial powers.) No association shall be subject to any visitorial powers other than such as are authorized by this title, or are vested in the courts of justice.

Sec. 5242. (Transfers, when void.) All transfers of the notes, bonds, bills of exchange, or other evidences of debt owing to any National banking association, or of deposits to its credit; all assignments of mortgages, sureties on real estate, or of judgments or decrees in its favor; all deposits of money, bullion, or other valuable thing for its use, or for the use of any of its shareholders or creditors; and all payments of money to either, made after the commission of an act of insolvency, or in contemplation thereof, made with a view to prevent the application of its assets in the manner prescribed by this chapter, or with a view to the preference of one creditor to another, except in payment of its circulating notes, shall be utterly null and void; and no attachment, injunction or execution, shall be issued against such association or its property before final judgment in any suit, action, or proceeding, in any State, county or municipal court.

Sec. 5243. (Use of the title "National.") All banks not organized and transacting business under the national currency laws, or under this title, and all persons or corporations doing the business of bankers, brokers, or savings institutions, except savings banks authorized by Congress to use the word "national" as a part of their corporate name, are prohibited from using the word "national" as a por-

tion of the name or title of such bank, corporation, firm or partnership; and any violation of this prohibition committed after the third day of September, eighteen hundred and seventy-three, shall subject the party chargeable therewith to a penalty of fifty dollars for each day during which it is committed or repeated.

Sec. 324. (Bureau of the Comptroller of the Currency.) There shall be in the Department of the Treasury a bureau charged with the execution of all laws passed by Congress relating to the issue and regulation of a national currency secured by United States bonds; the chief officer of which bureau shall be called the Comptroller of the Currency, and shall perform his duties under the general direction of the Secretary of the Treasury.

Provisions Relative to the Comptroller of the Currency.

Sec. 325. (Comptroller of the Currency.) The Comptroller of the Currency shall be appointed by the President, on the recommendation of the Secretary of the Treasury, by and with the advice and consent of the Senate, and shall hold his office for the term of five years unless sooner removed by the President, upon reasons to be communicated by him to the Senate; and he shall be entitled to a salary of five thousand dollars a year.

Sec. 326. (Bond and oath of office of Comptroller of the Currency.) The Comptroller of the Currency shall, within fifteen days from the time of notice for his appointment, take and subscribe the oath of office; and he shall give to the United States a bond

in the penalty of one hundred thousand dollars, with not less than two responsible sureties, to be approved by the Secretary of the Treasury, conditioned for the faithful discharge of the duties of his office.

Sec. 327. (Deputy Comptroller of the Currency.) There shall be in the Bureau of the Comptroller of the Currency a Deputy Comptroller of the Currency, to be appointed by the Secretary, who shall be entitled to a salary of two thousand five hundred dollars a year, and who shall possess the power and perform the duties attached by law to the office of Comptroller during a vacancy in the office or during the absence or inability of the Comptroller. The Deputy Comptroller shall also take the oath of office prescribed by the Constitution and laws of the United States, and shall give a like bond in the penalty of fifty thousand dollars.

Sec. 328. (Clerks.) The Comptroller of the Currency shall employ, from time to time, the necessary clerks, to be appointed and classified by the Secretary of the Treasury, to discharge such duties as the Comptroller shall direct.

Sec. 329. (Interest in National banks.) It shall not be lawful for the Comptroller or the Deputy Comptroller of the Currency, either directly or indirectly, to be interested in any association issuing national currency under the laws of the United States.

Sec. 331. (Rooms, vaults, furniture, etc., for Currency Bureau.) There shall be assigned, from time to time, to the Comptroller of the Currency, by the Secretary of the Treasury, suitable rooms in the Treasury Building for conducting the business of

the Currency Bureau, containing safe and secure fireproof vaults, in which the Comptroller shall deposit and safely keep all the plates not necessarily in the possession of engravers or printers, and other valuable things belonging to his department; and the Comptroller shall from time to time furnish the necessary furniture, stationery, fuel, lights and other proper conveniences for the transaction of the business of his office.

Sec. 332. (Banks in the District of Columbia.) The Comptroller of the Currency, in addition to the powers conferred upon him by law for the examination of National banks, is further authorized, whenever he may deem it useful, to cause examination to be made into the condition of any bank in the District of Columbia organized under act of Congress. The Comptroller, at his discretion, may report to Congress the results of such examination. The expense necessarily incurred in any such examination shall be paid out of any appropriation made by Congress for special bank examinations.

Sec. 4. (Jurisdiction of suits by and against National banks.) That all National banking associations established under the laws of the United States shall, for the purposes of all actions by or against them, real, personal, or mixed, and all suits in equity, be deemed citizens of the States in which they are respectively located; and in such cases the circuit and district courts shall not have jurisdiction other than such as they would have in cases between individual citizens of the same State. The provisions of this section shall not be held to affect the jurisdic-

tion of the courts of the United States in cases commenced by the United States or by direction of any officer thereof, or cases for winding up the affairs of any such bank.

Sec. 5198. (Locality of actions.) . . . That suits, actions, and proceedings against any association under this title may be had in any circuit, district, or territorial court of the United States, held within the district in such association may be established, or in any State, county or municipal court, in the county or city in which said association is located having jurisdiction.

Sec. 736. (Proceedings to enjoin Comptroller of the Currency.) All proceedings by any National banking association to enjoin the Comptroller of the Currency, under the provisions of any law relating to National banking associations, shall be had in the district where such association is located.

Sec. 629. (Jurisdiction of circuit court.) The circuit courts shall have original jurisdiction as follows: . . . Eleventh. Of all suits brought by any banking association established in the district for which the court is held, under the provisions of title "The National Banks to enjoin the Comptroller of the Currency, or any receiver acting under his direction, as provided by said title.

Sec. 380. (Conduct of suits involving National banks.) All suits and proceedings arising out of the provisions of law governing National banking associations, in which the United States or any of its officers or agents shall be parties, shall be conducted by the district attorneys of the several districts

under the direction and supervision of the Solicitor of the Treasury.

Section 52. Notes on the National Banking Act.

It was decided in the early case of *McCulloch vs. Maryland*¹ that the creation of a National bank by Congress was constitutional and that such a bank is an agency or instrumentality of the United States Government, and cannot be controlled by State legislation.

“National banks are instrumentalities of the Federal Government, created for a public purpose and as such necessarily subject to the paramount authority of the United States. It follows that an attempt by a State to define their duties or control the conduct of their affairs is absolutely void wherever such attempted exercise of authority expressly conflicts with the laws of the United States, and either frustrates the purpose of the national legislation or impairs the efficiency of these agencies of the Federal Government to discharge the duties for the performance of which they were created. These principles are axiomatic and are not sanctioned by the repeated adjudications of this court.”²

The federal statutes relative to National banks constitute the measure of authority of such corporations. They have no other powers than such as are expressly granted and such as are necessary for the purpose of carrying into effect the powers expressly granted.”³

¹ 4 Wheaton, 316.

² *Davis vs. Elmira Savings Bank*, 161 U. S., 275.

³ *Logan County National Bank vs. Townsend*, 139 U. S., 67.

“Where, however, the provisions of the National Bank Act prohibit certain acts without imposing any penalty or forfeiture applicable to particular transactions which have been executed, their validity can be questioned only by the United States and not by private parties.”⁴

Among the things which a National bank cannot do are the following:

Enter into contracts not incidental to banking business.⁵

Guarantee the debt of another solely for his benefit.⁶

Lend its credit by guaranteeing a letter of credit.⁷

Act as agent in buying and selling municipal, State or corporate bonds, or stocks or negotiable paper,⁸ or mortgages,⁹ or engage in an independent business enterprise.¹⁰

A National bank may receive special deposits,¹¹ or become a depository for public moneys,¹² or take a chattel mortgage to secure a loan.¹³

The restrictions upon the right of a National bank to hold real estate does not prevent a bank from purchasing it on a mortgage sale when necessary to protect a debt.¹⁴ The remedy of a creditor's suit to

⁴ Union National Bank vs. Matthews, 98 U. S. 621, S. W. Federal Statutes Annotated, Vol. V., p. 83.

⁵ Robertson vs. Buffalo County National Bank, 50 Neb., 235.

⁶ Johnston vs. Charlottesville National Bank, 3 Hughes, 637, 13 Fed. Cas. 7, 425.

⁷ Id.

⁸ Grand Forks First National Bank vs. Anderson, 172 U. S., 573.

⁹ Farmers' etc. National Bank vs. Smith, 77 Fed. Rep., 129.

¹⁰ Cooper vs. Hill, Fed. Rep., 582.

¹¹ Carlisle First National Bank vs. Graham, 100 U. S., 699.

¹² Nebraska vs. Orleans First National Bank, 88 Fed. Rep., 947.

¹³ Pittsburg Locomotive, etc., Works vs. State National Bank, 19 Fed. Cas. No. 11, 198.

¹⁴ Heath's Lafayette Second National Bank, 70 Ind., 106.

enforce the liability of shareholders of National banks in voluntary liquidation, provided by the National Banking Act, is cumulative, and not exclusive.¹⁵ The liability of a shareholder of a National bank whose affairs are in course of judicial administration in a court of equity does not mature until the court ascertains the necessity of enforcing it, determines the amount which the shareholder must pay, and fixes the time of payment; and the cause of action of the receiver of the court to enforce the liability does not accrue until the liability thus matures.¹⁶

Section 53. State Banking Laws.

The organization and business of State banks is regulated by statutes in each of the States of the Union. It is impossible to give an account of each of these forty-eight systems. State banks have the right, in theory, to issue bank notes, and the conditions governing such issue are generally regulated by State statutes. This right, however, has in effect been taken away by the Federal tax of ten per cent upon such circulation. State banks are allowed much greater freedom in respect to the security upon which they are allowed to lend money than National banks, although the provisions differ greatly in the different States.

¹⁵ King vs. Pomeroy, 121 Fed. Rep., 287.

¹⁶ Id.

Section 54. The Federal Reserve Act.

The Federal Reserve Act became the law of the land by the signature of the President on December 23, 1913, and the Federal Reserve Banks were established and began operation on November 16, 1914, in the cities which had been selected as headquarters for the twelve Federal Reserve districts provided for by the Act. These districts and Reserve cities were as follows:

District No. 1, Boston, Mass.; No. 2, New York, N. Y.; No. 3, Philadelphia, Pa.; No. 4, Cleveland, Ohio; No. 5, Richmond, Va.; No. 6, Atlanta, Ga.; No. 7, Chicago, Ill.; No. 8, St. Louis, Mo.; No. 9, Minneapolis, Minn.; No. 10, Kansas City, Mo.; No. 11, Dallas, Texas; No. 12, San Francisco, Cal.

Since its passage in 1913, amendments have been made to the Federal Reserve Act by Congress in 1914, 1915, 1916, 1917, 1918, and 1919. Its principal provisions, as amended up to 1919, appear in the following pages. It may also be noted that the operations of the Federal Reserve Banks and member banks of the Reserve system are or have been affected, directly or indirectly, by certain sections of the following Acts of Congress:

Clayton Anti-Trust Act, approved October 15, 1914, as amended by Kern Amendment, approved May 15, 1916.

Amendment to Postal Savings Act, approved May 18, 1916.

Farm Loan Act, approved July 17, 1916.

First Liberty Bond Act, approved April 24, 1917.

Second Liberty Bond Act, approved September 24, 1917.

Third Liberty Bond Act, approved April 4, 1918.

War Finance Corporation Act, approved April 5, 1918, ■■ amended by the Victory Liberty Loan Act, approved March 3, 1919.

An Act to Conserve the Gold Supply of the United States, etc., approved April 23, 1918.

Trading With the Enemy Act, as amended by the act approved September 24, 1918.

Section 5172, Revised Statutes, ■■ amended by act of March 3, 1919.

Section 5200, Revised Statutes, ■■ amended by act of September 24, 1918.

Section 5202, Revised Statutes, as amended by War Finance Corporation Act, approved April 5, 1918.

Sections 5208 and 5209, Revised Statutes, as amended by act of September 26, 1918.

Revenue Act of 1918, approved February 24, 1919.

Main Features of the Act.

“An Act to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.”

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be the “Federal Reserve Act.”

Wherever the word “bank” is used in this Act, the word shall be held to include State bank, banking association, and trust company, except where national banks or Federal Reserve banks are specifically referred to.

Sec. 2. As soon as practicable, the Secretary of the Treasury, the Secretary of Agriculture and the Comptroller of the Currency, acting as “The Reserve Bank Organization Committee,” shall designate not less than eight nor more than twelve cities to be known as Federal reserve cities, and shall divide the continental United States, excluding Alaska, into districts, each district to contain only one of such Federal reserve cities. The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized.

The said committee shall supervise the organization in each of the cities designated of a Federal reserve bank, which shall include in its title the name of the city in which it is situated, as "Federal Reserve Bank of Chicago."

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank.

* * *

Any national bank failing to signify its acceptance of the terms of this Act within the sixty days aforesaid, shall cease to act as a reserve agent, upon thirty days' notice, to be given within the discretion of the said organization committee or of the Federal Reserve Board.

Should any national banking association in the United States now organized fail within one year after the passage of this Act to become a member

bank or fail to comply with any of the provisions of this Act applicable thereto, all of the rights, privileges, and franchises of such association granted to it under the national-bank Act, or under the provisions of this Act, shall be thereby forfeited.

Should the subscriptions by banks to the stock of said Federal reserve banks or any one or more of them be, in the judgment of the organization committee, insufficient to provide the amount of capital required therefor, then and in that event the said organization committee may, under conditions and regulations to be prescribed by it, offer to public subscription at par such an amount of stock in said Federal reserve banks, or any one or more of them, as said committee shall determine, subject to the same conditions as to payment and stock liability as provided for member banks.

No individual, copartnership, or corporation other than a member bank of its district shall be permitted to subscribe for or to hold at any time more than \$25,000 par value of stock in any Federal reserve bank. Such stock shall be known as public stock and may be transferred on the books of the Federal reserve bank by the chairman of the board of directors of such bank.

No Federal reserve bank shall commence business with a subscribed capital less than \$4,000,000. The organization of reserve districts and Federal reserve cities shall not be construed as changing the present status of reserve cities and central reserve cities, except in so far as this Act changes the amount of reserves that may be carried with approved reserve agents located therein.

Sec. 3. The Federal Reserve Board may permit or require any Federal reserve bank to establish branch banks within the Federal reserve district in which it is located or within the district of any Federal reserve bank which may have been suspended. Such branches, subject to such rules and regulations as the Federal Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal reserve bank of the district, and the remaining directors by the Federal Reserve Board. Directors of branch banks shall hold office during the pleasure of the Federal Reserve Board.

Sec. 4. * * Upon the filing of a certificate of organization with the Comptroller of the Currency, the said Federal reserve bank shall become a body corporate, and as such shall have power—

First. To adopt and use a corporate seal.

Second. To have succession for a period of twenty years from its organization unless it is sooner dissolved by an Act of Congress, or unless its franchise becomes forfeited by some violation of law.

Third. To make contracts.

Fourth. To sue and be sued, complain and defend, in any court of law or equity.

Fifth. To appoint by its board of directors such officers and employees as are not otherwise provided for in this Act, to define their duties, require

bonds of them and fix the penalty thereof, and to dismiss at pleasure such officers or employees.

Sixth. To prescribe by its board of directors, by-laws not inconsistent with law, regulating the manner in which its general business may be conducted, and the privileges granted to it by law may be exercised and enjoyed.

Seventh. To exercise by its board of directors, or duly authorized officers or agents, all powers specifically granted by the provisions of this Act and such incidental powers as shall be necessary to carry on the business of banking within the limitations prescribed by this Act.

Eighth. Upon deposit with the Treasurer of the United States of any bonds of the United States in the manner provided by existing law relating to national banks, to receive from the Comptroller of the Currency circulating notes in blank, registered and countersigned as provided by law, equal in amount to the par value of the bonds so deposited, such notes to be issued under the same conditions and provisions of law as relate to the issue of circulating notes of national banks secured by bonds of the United States bearing the circulating privilege, except that the issue of such notes shall not be limited to the capital stock of such Federal reserve bank.

Every Federal reserve bank shall be conducted under the supervision and control of a board of directors. Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank

or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations ~~as~~ may be safely and reasonably made with due regard for the claims and demands of other member banks.

Such board of directors shall be selected as hereinafter specified and shall consist of nine members, holding office for three years, and divided into three classes, designated as classes A, B, and C.

Class A shall consist of three members, who shall be chosen by and be representative of the stock-holding banks.

Class B shall consist of three members, who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit.

Class C shall consist of three members who shall be designated by the Federal Reserve Board. When the necessary subscriptions to the capital stock have been obtained for the organization of any Federal reserve bank, the Federal Reserve Board shall appoint the class C directors and shall designate one of such directors as chairman of the board to be selected. Pending the designation of such chairman, the organization committee shall exercise the powers and duties appertaining to the office of chairman in the organization of such Federal reserve bank.

No Senator or Representative in Congress shall be a member of the Federal Reserve Board or an officer or a director of a Federal reserve bank.

No director of class B shall be an officer, director, or employee of any bank.

No director of class C shall be an officer, director, employee, or stockholder of any bank.

Class C directors shall be appointed by the Federal Reserve Board. They shall have been for at least two years residents of the district for which they are appointed, one of whom shall be designated by said board as chairman of the board of directors of the Federal reserve bank and as "Federal reserve agent." He shall be a person of tested banking experience, and in addition to his duties as chairman of the board of directors of the Federal reserve bank he shall be required to maintain, under regulations to be established by the Federal Reserve Board, a local office of said board on the premises of the Federal reserve bank. He shall make regular reports to the Federal Reserve Board and shall act as its official representative for the performance of the functions conferred upon it by this act.

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated.

Sec. 7. After all necessary expenses of a Federal reserve bank have been paid or provided for.

the stockholders shall be entitled to receive an annual dividend of six per centum on the paid-in capital stock, which dividend shall be cumulative. After the aforesaid dividend claims have been fully met, the net earnings shall be paid to the United States as a franchise tax. * *

The net earnings derived by the United States from Federal reserve banks shall, in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States under regulations to be prescribed by the Secretary of the Treasury.

Sec. 8. Section 5154, United States Revised Statutes, is hereby amended to read as follows:

“Any bank incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the existing laws may, by the vote of the shareholders owning not less than fifty-one per centum of the capital stock of such bank or banking association, with the approval of the Comptroller of the Currency, be converted into a national banking association, with any name approved by the Comptroller of the Currency: Provided, however, That said conversion shall not be in contravention of the State law.”

When the Comptroller has given to such bank or banking association a certificate that the provisions

of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by the Federal Reserve Act and by the national banking Act for associations originally organized as national banking associations.

State Banks as Members.

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: Provided, however, That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by banks examined.

Federal Reserve Board.

Sec. 10. A Federal Reserve Board is hereby created which shall consist of seven members, including the Secretary of the Treasury and the Comptroller of the Currency, who shall be members ex officio, and five members appointed by the President of the United States, by and with the advice and consent of the Senate. The five members of the

Federal Reserve Board appointed by the President and confirmed as aforesaid shall devote their entire time to the business of the Federal Reserve Board and shall each receive an annual salary of \$12,000, payable monthly together with actual necessary traveling expenses, and the Comptroller of the Currency, an ex officio member of the Federal Reserve Board, shall, in addition to the salary now paid him as Comptroller of the Currency, receive the sum of \$7,000 annually for his services as a member of said board.

Of the five members thus appointed by the President at least two shall be persons experienced in banking or finance. One shall be designated by the President to serve for two, one for four, one for six, one for eight, and one for ten years, and thereafter each member so appointed shall serve for a term of ten years unless sooner removed for cause by the President. Of the five persons thus appointed, one shall be designated by the President as governor and one as vice-governor of the Federal Reserve Board. The governor of the Federal Reserve Board, subject to its supervision, shall be the active executive officer.

Sec. 11. The Federal Reserve Board shall be authorized and empowered:

(a) To examine at its discretion the accounts, books and affairs of each Federal reserve bank and of each member bank and to require such statements and reports as it may deem necessary. The said board shall publish once each week a statement showing the condition of each Federal reserve bank

and a consolidated statement for all Federal reserve banks.

(b) To permit, or, on the affirmative vote of at least five members of the Reserve Board, to require Federal reserve banks to rediscount the discounted paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

(c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act.

(d) To supervise and regulate through the bureau under the charge of the Comptroller of the Currency the issue and retirement of Federal reserve notes, and to prescribe rules and regulations under which such notes may be delivered by the Comptroller to the Federal reserve agents applying therefor.

(e) To add to the number of cities classified as reserve and central reserve cities under existing law in which national banking associations are subject to the reserve requirements set forth in section twenty of this Act; or to reclassify existing reserve and central reserve cities or to terminate their designation as such.

(f) To suspend or remove any officer or director of any Federal reserve bank.

(g) To require the writing off of doubtful or worthless assets upon the books and balance sheets of Federal reserve banks.

(h) To suspend, for the violation of any of the provisions of this Act, the operations of any Fed-

eral reserve bank, to take possession thereof, administer the same during the period of suspension, and, when deemed advisable, to liquidate or reorganize such bank.

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents.

(j) To exercise general supervision over said Federal reserve banks.

(k) To grant by special permit to national banks applying therefor, when not in contravention of State or local law, the right to act as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

(l) To employ such attorneys, experts, assistants, clerks, or other employees as may be deemed necessary to conduct the business of the board.

Federal Advisory Council.

Sec. 12. There is hereby created a Federal Advisory Council, which shall consist of as many members as there are Federal reserve districts. Each Federal reserve bank by its board of directors shall annually select from its own Federal reserve district one member of said council, who shall receive

such compensation and allowances as may be fixed by his board of directors subject to the approval of the Federal Reserve Board. The meetings of said advisory council shall be held at Washington, District of Columbia, at least four times each year, and oftener if called by the Federal Reserve Board.

The Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system.

Powers of Federal Reserve Banks.

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills pay-

able within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: Provided, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank.

Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest by such bank as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange arising out of actual commercial transactions; that is notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts, and bills of exchange, secured by staple agricultural products, or other goods, wares, or merchandise from being eligible for such discount; but such definition shall not include notes, drafts, or bills covering merely investments or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, except bonds and notes of the Govern-

ment of the United States. Notes, drafts, and bills admitted to discount under the terms of this paragraph must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace: Provided, That notes, drafts, and bills drawn or issued for agricultural purposes or based on live stock and having a maturity not exceeding six months, exclusive of days of grace, may be discounted in an amount to be limited to a percentage of the assets of the Federal reserve bank, to be ascertained and fixed by the Federal Reserve Board.

The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values.

Any Federal reserve bank may make advances to its member banks on their promissory notes for a period not exceeding fifteen days at rates to be established by such Federal reserve banks, subject to the review and determination of the Federal Reserve Board, provided such promissory notes are secured by such notes, drafts, bills of exchange, or bankers' acceptances as are eligible for rediscount or for purchase by Federal reserve banks under the provisions of this Act, or by the deposit or pledge of bonds or notes of the United States.

Government Deposits.

Sec. 15. The moneys held in the general fund of the Treasury, except the five per centum fund for the redemption of outstanding national-bank notes and the funds provided in this Act for the redemption of Federal reserve notes may, upon the direction of the Secretary of the Treasury, be deposited in Federal reserve banks, which banks, when required by the Secretary of the Treasury, shall act as fiscal agents of the United States; and the revenues of the Government or any part thereof may be deposited in such banks, and disbursements may be made by checks drawn against such deposits.

No public funds of the Philippine Islands, or of the postal savings, or any Government funds, shall be deposited in the continental United States in any bank not belonging to the system established by this Act: Provided, however, That nothing in this Act shall be construed to deny the right of the Secretary of the Treasury to use member banks as depositories.

Note Issues.

Sec. 16. Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations of the United States and shall be receivable by all national and member banks and Federal reserve banks

and for all taxes, customs, and other public dues. They shall be redeemed in gold on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or in gold or lawful money at any Federal reserve bank.

Any Federal reserve bank may make application to the local Federal reserve agent for such amount of the Federal reserve notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal reserve agent of collateral in amount equal to the sum of the Federal reserve notes thus applied for and issued pursuant to such application.

Every Federal reserve bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal reserve notes in actual circulation: Provided, however, That when the Federal reserve agent holds gold or gold certificates as collateral for Federal reserve notes issued to the bank such gold or gold certificates shall be counted as part of the gold reserve which such bank is required to maintain against its Federal reserve notes in actual circulation.

The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five per centum of the total amount of notes issued less

the amount of gold or gold certificates held by the Federal reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required.

In order to furnish suitable notes for circulation as Federal reserve notes, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved in the best manner to guard against counterfeits and fraudulent alterations, and shall have printed therefrom and numbered such quantities of such notes of the denominations of \$5, \$10, \$20, \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 as may be required to supply the Federal reserve banks. Such notes shall be in form and tenor as directed by the Secretary of the Treasury under the provisions of this Act and shall bear the distinctive numbers of the several Federal reserve banks through which they are issued.

When such notes have been prepared, they shall be deposited in the Treasury, or in the subtreasury or mint of the United States nearest the place of business of each Federal reserve bank, and shall be held for the use of such bank subject to the order of the Comptroller of the Currency for their delivery, as provided by this Act.

Sec. 17. So much of the provisions of section 5159 of the Revised Statutes of the United States, and section 4 of the act of June 20, 1874, and section 8 of the act of July 12, 1882, and of any other provisions of existing statutes as require that before

any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States a stated amount of the United States registered bonds, and so much of those provisions or of any other provisions of existing statutes as require any national banking association now or hereafter organized to maintain a minimum deposit of such bonds with the Treasurer is hereby repealed.

[Note.—Under act of April 23, 1918, Federal reserve banks may issue Federal reserve bank notes in any denominations, including \$1 and \$2, against the security of United States certificates of indebtedness to the extent permitted by that act.]

Bank Reserves.

Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

Bank Examinations.

Sec. 21. Section 5240, United States Revised Statutes, is amended to read as follows:

"The Comptroller of the Currency, with the approval of the Secretary of the Treasury, shall appoint examiners who shall examine every member bank at least twice in each calendar year and oftener if considered necessary: Provided, however, That the Federal Reserve Board may authorize examination by the State authorities to be accepted in the case of State banks and trust companies and may at any time direct the holding of a special examination of State banks or trust companies that are stockholders in any Federal reserve bank. The examiner making the examination of any national bank, or of any other member bank, shall have power to make a thorough examination of all the affairs of the bank, and in doing so he shall have power to administer oaths and to examine any of the officers

and agents thereof under oath and shall make a full and detailed report of the condition of said bank to the Comptroller of the Currency."

The Federal Reserve Board shall, at least once each year, order an examination of each Federal reserve bank, and upon joint application of ten member banks the Federal Reserve Board shall order a special examination and report of the condition of any Federal reserve bank.

Loans on Farm Lands.

Sec. 24. Any national banking association not situated in a central reserve city may make loans secured by improved and unencumbered farm land situated within its Federal reserve district or within a radius of one hundred miles of the place in which such bank is located, irrespective of district lines, and may also make loans secured by improved and unencumbered real estate located within one hundred miles of the place in which such bank is located, irrespective of district lines; but no loan made upon the security of such farm land shall be made for a longer time than five years, and no loan made upon the security of such real estate as distinguished from farm land shall be made for a longer time than one year, nor shall the amount of any such loan, whether upon such farm land or upon such real estate, exceed fifty per centum of the actual value of the property offered as security. Any such bank may make such loans, whether secured by such farm land or such real estate, in an aggregate sum equal to twenty-five per centum of its capital and surplus

or to one-third of its deposits, and such banks may continue hereafter as heretofore to receive time deposits and to pay interest on the same.

Foreign Branches.

Sec. 25. Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

Gold Standard Maintained.

Sec. 26. All provisions of law inconsistent with or superseded by any of the provisions of this Act are to that extent and to that extent only hereby

repealed: Provided, Nothing in this Act contained shall be construed to repeal the parity provision or provisions contained in an Act approved March 14, 1900, entitled "An Act to define and fix the standard of value, to maintain the parity of all forms of money issued or coined by the United States, to refund the public debt, and for other purposes," and the Secretary of the Treasury may, for the purpose of maintaining such parity and to strengthen the gold reserve, borrow gold on the security of United States bonds authorized by section 2 of the Act last referred to or for one-year gold notes bearing interest at a rate of not to exceed three per centum per annum, or sell the same if necessary to obtain gold. When the funds of the Treasury on hand justify, he may purchase and retire such outstanding bonds and notes.

The Federal Farm Loan Act.

An Act to provide capital for agricultural development, to create standard forms of investment based upon farm mortgages, to equalize rates of interest upon farm loans, to furnish a market for United States bonds, to create Government depositaries and financial agents for the United States, and for other purposes.—Approved July 17, 1916. Following are some of the provisions of the Act:

Sec. 3. That there shall be established at the seat of government in the Department of the Treasury a bureau charged with the execution of this Act and of all Acts amendatory thereof, to be known as the Federal Farm Loan Bureau, under the general supervision of a Federal Farm Loan Board.

Said Federal Farm Loan Board shall consist of five members, including the Secretary of the Treasury, who shall be a member and chairman ex officio, and four members to be appointed by the President of the United States, by and with the advice and consent of the Senate. Of the four members to be appointed by the President, not more than two shall be appointed from one political party, and all four of said members shall be citizens of the United States and shall devote their entire time to the business of the Federal Farm Loan Board; they shall receive an annual salary of \$10,000 payable monthly, together with actual necessary traveling expenses.

Sec. 4. That as soon as practicable the Federal Farm Loan Board shall divide the continental United States, excluding Alaska, into twelve districts, which shall be known as Federal land bank districts, and may be designated by number. Said districts shall be apportioned with due regard to the farm loan needs of the country, but no such district shall contain a fractional part of any State. The boundaries thereof may be readjusted from time to time in the discretion of said board.

The Federal Farm Loan Board shall establish in each Federal land bank district a Federal land bank, with its principal office located in such city within the district as said board shall designate. Each Federal land bank shall include in its title the name of the city in which it is located. Subject to the approval of the Federal Farm Loan Board, any Federal land bank may establish branches within the land bank district.

Sec. 5. That every Federal land bank shall have, before beginning business, a subscribed capital of not less than \$750,000. The Federal Farm Loan Board is authorized to prescribe the times and conditions of the payment of subscriptions to capital stock, to reject any subscription in its discretion, and to require subscribers to furnish adequate security for the payment thereof.

The capital stock of each Federal land bank shall be divided into shares of \$5 each, and may be subscribed for and held by any individual, firm, or corporation, or by the Government of any State or of the United States.

Sec. 7. That corporations, to be known as national farm loan associations, may be organized by persons desiring to borrow money on farm mortgage security under the terms of this Act. Such persons shall enter into articles of association which shall specify in general terms the object for which the association is formed and the territory within which its operations are to be carried on, and which may contain any other provision, not inconsistent with law, which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

Ten or more natural persons who are the owners, or about to become the owners, of farm land qualified as security for a mortgage loan under this Act, may unite to form a national farm loan association. They shall organize subject to the requirements and the conditions specified in this Act, so far as the same may be applicable: Provided, That the board

of directors may consist of five members only, and instead of a secretary and a treasurer there shall be a secretary-treasurer, who need not be a shareholder of the association.

When the articles of association are forwarded to the Federal land bank of the district, they shall be accompanied by the written report of the loan committee, and by an affidavit stating that each of the subscribers is the owner, or is about to become the owner, of farm land qualified under this Act as the basis of a mortgage loan; that the loan desired by each person is not more than \$10,000, nor less than \$100, and that the aggregate of the desired loans is not less than \$20,000; that said affidavit is accompanied by a subscription to stock in the Federal land bank equal to five per centum of the aggregate sum desired on mortgage loans; and that a temporary organization of said association has been formed by the election of a board of directors, a loan committee, and a secretary-treasurer who subscribes to said affidavit, giving his residence and post office address.

Upon receipt of its charter such national farm loan association shall be authorized and empowered to receive from the Federal land bank of the district sums to be loaned to its members under the terms and conditions of this Act.

CHAPTER IX.

METHODS AND MACHINERY OF BANKING.

Section 55. Deposits.

The business of banking must depend primarily on the deposits which it receives. Every bank, National, State, or private, has the right to receive deposits, and must mainly depend upon the use of such deposits for their profits. Deposits may be either the personal property of the depositor, or money held by him in a trust capacity; in the latter case, the name in which the account is kept should show its trust nature. A bank may also, in addition to general, receive special, or contingent, deposits. This right to receive special or contingent deposits was at first denied by some courts, but is now fully established.¹

“Again, a bank ordinarily need not question the source whence a depositor derived his money. It may even receive a deposit from a gambler, suspecting or believing he won it by gaming or some other questionable method, but a bank crosses the forbidden line when, ‘with the conscious knowledge that the depositor is obtaining the money by fraud or theft,’² it aids him in thus getting it from others.” ■

Neither has a bank the right to receive deposits

¹ First National Bank vs. Graham, 100 U. S., 699.

■ Wright vs. Stewart, 130 Fed. Rep.

■ Bolles ■ “Modern Law of Banking,” Vol. 1, p. 181.

when insolvent, and receiving deposits under such circumstances may render the officers and directors of a bank criminally liable.⁴

A National or State bank is, to a certain extent, a quasi-public corporation, and therefore subject to a certain degree of public control; but a bank is not engaged in such a public business, that, like a common carrier, it is compelled to accept the business of anyone who may choose to offer it. A bank has the fullest freedom in choosing and rejecting depositors. An account may be rejected for any reason the bank chooses, or without any reason at all, and an account may be closed by the bank at any time. It is the custom of some banks to require a certain average deposit and to reject accounts, otherwise desirable, which fail to keep up the required balance.

Section 56. Relation of Bank to Depositor.

A bank occupies the position of a debtor, rather than that of a bailee, to its depositors. Its position, however, differs somewhat from that of an ordinary debtor, as it does not have the same absolute freedom of disposal of the borrowed money.

The case of the receiving of the money by an insolvent bank has been already referred to in the previous section. The rights of the depositor under such conditions has been thus summarized by a recent author.⁵

“Notwithstanding the insolvency of a bank at the time of receiving a deposit, its subsequent recovery

⁴ To thus render an officer or director criminally liable in such circumstances there must be knowledge on his part of such state of insolvency. Some states require actual knowledge, while in other states constructive notice is sufficient to secure conviction.

⁵ Bolles in “Modern Law of Banking,” Vol. 1, pp. 188-190.

may not be easy. The law is in a transitory stage; many of the older decisions are no longer in harmony with the newer rules.

(a) To recover a deposit, on the ground that it ought not to have been received, there must have been an actual deposit as distinguished from the mere crediting of a check to the depositor.⁶ But when an actual deposit of money, checks, notes, or other property has been made and is still in the bank, it can be recovered by replevin or other appropriate action.⁷ This rule is everywhere applied.

(b) If the deposit has been received and can be traced, or has become mingled with an existing fund, it can be recovered.⁸ Likewise a portion of the fund that exists or can be traced into another form.⁹ So long as its presence can be detected in the original or a substituted form, existing either separately or as a part of another amount, it can be recovered.¹⁰

On the other hand, if the deposit has been paid out or mingled with a larger fund from which many payments have been made, and there is no clear evidence that the deposit or any portion still remains in the general fund, a similar amount cannot be recovered therefrom.¹¹ To justify such a segregation there must be satisfactory proof that the deposit in controversy is still in the general fund. To trace a deposit into such a fund will not suffice."¹²

⁶ Travellers' Ins. Co. vs. Caldwell, 59 Kan., 156. Kansas State Bank vs. First State Bank, 62 Kan., 788.

⁷ Furber vs. Stephens, 35 Fed., 17.

⁸ McAfee vs. Bland, 11 Ky. L. Rep., 1; Roca vs. Byrne, 145 N. Y., 182-186.

⁹ Ibid.

¹⁰ Standard Oil Co. vs. Hawkins, 20 C. C. A., 468.

¹¹ Slater vs. Oriental Mills, 18 R. I., 352.

¹² Bishop vs. Mahoney, 70 Minn., 238; Wetherell vs. O'Brien, 140 Ill.,

In addition to receiving money on deposit, banks at times receive various valuables for safe keeping. In such cases, the bank is, of course, simply a bailee. Such a transaction is outside of the regular business of banking, and is generally only engaged in for the convenience of the regular customers of the bank. The business of a safety deposit company, and of a bank are essentially different.

Section 57. Loans.

It is not sufficient for a bank to merely receive deposits; they must in turn loan out such deposits in order to make a profit. In order to do on time banking business at all, there must be the power to make loans. Limitations upon such powers, however, may be, and generally are imposed. Such restrictions are statutory and have been shown in the chapters on National and State banking laws. Some further consideration, however, is required in this place.

Section 58. Restrictions on Amounts of Loans.

The National Bank Act and various State statutes require a certain reserve to be kept on hand by the banks, and prohibit the making of loans when the reserve has fallen below the required figure, or when such loans would reduce it below such required amount.

The National Bank Act also prohibits any bank from lending more than ten per cent of the amount of their capital to any one individual or corporation.

“The ten per cent limitation of the Bank Act has

an application which is sometimes overlooked by bank managers. National banks are prohibited from loaning over ten per cent of their capital to any one individual or corporation, except upon paper representing actually existing merchandise. This ten per cent provision, therefore, must apply to loans made by any National bank to any other bank, National, State or private.”¹³

A bank is not prohibited from lending money to its stockholders, officers or directors, although restrictions of this character have been at times proposed.

Section 59. Loans Upon Real Estate.

One of the chief limitations upon the power of National banks is the prohibition against the security of real estate. A National bank may take the title to real property or a mortgage upon real property as a settlement of, or as security for pre-existing debts. State and private banks, have, in general, full power to make loans on real estate.

Section 60. Loans Upon Commercial Paper.

The most common loans made by banks are those made upon commercial paper—either promissory notes or bills of exchange. At one time an important distinction existed between the cases where a bank made a loan upon the security of a bill of notes and the cases where it purchased such paper, the laws governing usury applying in the first class of cases, but not in the second. This distinction no longer exists.

■ Patten's Methods and Machinery of Practical Banking, p. 145.

The determination of what commercial papers shall be received as security for loans is one of the most important and difficult of any connected with the banking business. Money must be loaned to make a profit for the bank, and too great conservation may destroy the stockholders' dividends, but on the other hand, too great risks in the making of loans may destroy the bank itself.

The acceptance of paper may be passed upon by the board of directors of the bank, but if there will be too long a wait before such a meeting, the question of acceptance is generally decided upon by the President, Cashier, or Finance Committee. The discount clerk, whose duty it is to keep the records relative to commercial paper discounted by the bank, holds a most responsible position, and one, which in the line of promotion, ranks with that of the tellers.

Many elements must enter into the question of the desirability of discounting a certain piece of commercial paper. The financial standing of the parties whose names are found on the paper, while the most primary consideration, comes very far from being the sole consideration. A piece of paper which might be readily taken at one time, may be rejected at another. The amount of paper already discounted for the party offering this bill or note, the relations existing between the maker and indorser of the paper, the circumstances of the transaction, etc., all have to be considered. Furthermore, the condition of the bank, itself, and of the money market exert their influence. When the interest for money is low, the banks will be disinclined to loan heavily, except for short periods, expecting to be soon able to put

out their money at a higher rate. The effect of a high rate of interest is not always the same. If the rate is caused by a brisk demand for money for new enterprises and conditions in general are prosperous it will be for the interest of the bank to put out as much money as possible for long periods; if, however, the high rate is one of the results of a panic, and the demand for the money is to meet previously existing debts, the tendency of the banks will be to strengthen their own position, by calling in money, and to follow a conservative policy relative to loans.

In determining interest in discounting paper the banks make use of a peculiar system known as bank discount. Under this method the interest is deducted in advance from the face of the paper. Under this system the rate of interest really collected is greater than nominally charged. Nevertheless, it is held that deducting the highest legal rate of interest in advance does not constitute usury.

Section 61. Overdrafts.

An overdraft arises where a check is drawn on a bank and honored, although there was no deposit in the bank to meet it. An overdraft creates a loan from the bank to the party drawing the check. Overdrafts were formerly strongly condemned, but are now recognized as entirely legitimate under proper conditions. A bank will, in general, honor any overdraft where it was made in pursuance of a prior agreement, or where it is merely an unintentional overdraft by a depositor in good standing and with good credit. Interest may be charged on an overdraft as upon any other form of loan, although a few

cases have held that interest can only be charged in such cases as the result of an agreement to that effect.

Section 62. Accommodation Paper.

“Accommodation paper” is commercial paper which does not represent any real transaction between the parties, and where one or more of the parties merely lend the use of their names for the purposes of aiding some other party to secure credit. The accommodating party may nominally hold any position on the paper—being either maker, indorser, drawer, or acceptor. As between the parties to the paper the true state of affairs may always be shown, and the person for whose credit the paper was signed is primarily liable. A purchaser of such paper either with or without notice of the true state of affairs may hold all the parties to the paper to the same extent as in the case of ordinary paper. Accommodation paper, while often good security, is always surrounded with a certain degree of suspicion.

Section 63. Clearing Houses.

“This is one of the modern short-hand processes in banking which few students of finance outside of banking circles seem clearly to understand. There is nothing intricate or mystifying in this quick method of making bank settlements. The circle of banks associated in any settling arrangement of this class simply agrees to make a conjunction through representatives—Messengers and Settling-Clerks—and at the place of meeting effect these exchanges which, in ante-Clearing-House days were made by

the slow and wearisome methods of the old-fashioned familiar type. This old method demanded that every bank having claims upon other banks should send out Messengers to collect the same over the counters, and that all banks having payments to make to other banks should by their representatives make special trips to the creditor banks to cancel the obligations. There was much weary traveling for the Messengers, a great amount of paying and receiving by the Tellers, and much incidental risk from exposure of funds, all of which has, to a very great extent, been done away with by the institution of the Clearing-Houses.

A bank Clearing-House is about the same the world over. We have copied the clearing idea from London, where I found its methods and machinery almost identical with those of New York, Boston and other cities.

We have not been using the system long.

In Europe the Clearing-House system has been in vogue for fully a hundred years or so."¹⁴

The method of conducting business at a clearing house is briefly as follows:

Before the opening hour at the clearing house, the settlement clerk of each bank must prepare a statement showing the respective charges in favor of the particular bank against each other bank which is a member of the clearing house. The settling clerk and a messenger from each bank must be at the clearing house before the opening hour. As soon as the session is opened the messengers march in order along the line of settling clerks who are seated behind

¹⁴ Patten's Methods and Machinery of Practical Banking, p. 349.

a long desk, and each messenger delivers to each settling clerk the checks on the settling clerk's bank which have come into the hands of the bank which the messenger represents. When this work is finished the statement of each settling clerk will show the balance existing between his bank and each other bank which is a member of the clearing house. The balance of the balances will show whether the particular bank is a creditor or a debtor of the clearing house. Those which are indebted to the clearing house are obliged to make settlement before a certain hour of the same day.

A Clearing House Association legally is in nowise responsible for the obligations of any of its individual members. As a matter of fact the members of a Clearing House Association feel a moral responsibility to a certain extent. This responsibility manifests itself in two ways, first; in making the members of such associations careful to keep banks of doubtful standing out of the association; and second, in causing the banks to aid one another in various ways to tide over periods of financial peril.

Section 64. Foreign Exchange.

Commerce between different nations is, in its ultimate analysis, merely barter on a large scale. There is no general recognized standard of value, or medium of exchange, between different countries and even where gold or silver bullion, or even coins, are sent from one country to another, such metal is sent and received as commodities rather than as money (in the strict sense). It is claimed (and truly) that gold has world wide equal value, but it has such value **as a**

commodity (the value of which is, of course, raised by the demand for it for use as money) and not as money. Credits and debits between the citizens of two different countries are balanced off by the employment of foreign bills of exchange, and only when the balance of trade reaches a certain point in favor of one country against another will shipments of gold be required to settle each balance.

The difference between the underlying principles of domestic and foreign exchanges is thus explained by President Hadley of Yale in his recent work on "Economics":

"In foreign exchange the case is different. The cost of shipment is greater, giving a wider margin of profit and loss; and the remittances are managed by houses which make them a direct source of income, instead of doing the work for nothing as a means of attracting deposit accounts.

The bullion value of a pound sterling is \$4.86 $\frac{2}{3}$; but the right to receive a pound sterling in London cannot always be bought or sold for that sum in New York. This will happen only when the payments which Americans wish to make in London are approximately equal in amount to those which Englishmen wish to make in New York. In that case the foreign exchange houses which have branches in both cities will sell drafts in each place payable by their branch in the other; and the money received from the sale of the drafts in one direction will furnish the sums needed for paying those in the other direction as fast as they are presented. The competition of different houses with one another will prevent them from doing much more than this; the

profits of such remittances are made on a very narrow margin.

If there are more payments to be made in London than in New York, the London houses will find that they are called on for much money, and will find it hard to sell drafts on New York with which to obtain the means of payment. Their cash reserves diminish just when they need them most. On the other hand, the New York houses find everybody desirous to buy drafts, which they prove a source of embarrassment at the London end of the transaction. They therefore raise the price of such drafts to \$4.89 or thereabouts. It cannot go much higher than this, because two cents and a half covers the various items in the cost of shipping the gold—freight, insurance, etc.,—and a man desiring to pay a debt in London will therefore ship the specie rather than pay a rate much above \$4.89.

If, on the other hand, there are more payments to be made in New York than in London, the New York houses are anxious to sell as many drafts as possible; for they can thus obtain the means of fulfilling commercial engagements which their London houses can make with profit. To save the necessity of actual shipment of gold from London to New York the New York houses will sell drafts as low as \$4.83; the difference between this and $\$4.86\frac{2}{3}$ representing the expense for freight, insurance, and loss of interest which they would incur by shipping the money. Exchange cannot go lower than this, for any further reduction would make it cheaper for the banking houses to meet their obligations by importing specie."

CHAPTER X.

PROBLEMS IN CURRENCY AND BANKING.

Section 65. Gresham's Law.

A statement of "Gresham's Law" is usually to be found in all works on Political Economy, and the working of the law has been constantly illustrated in the present volume. As, however, every problem affecting the currency of any country, must depend, so greatly upon the workings of this principle, it seems advisable to re-state this law more in detail in this place.

This law takes its name from its first discoverer, Sir Thomas Gresham, who lived in England during the reign of Queen Elizabeth. Briefly stated, this law is—that poor money drives out good money; or perhaps, better—that poorer money drives out better money.

This law is an anomalous application of the law of the survival of the fittest. As explained by Darwin in his great masterpiece, by the survival of the fittest (and this law is as in force in the field of political economy as in that of biology) is meant, not the survival of the fittest measured by the highest standard, but the survival of the fittest to meet existing conditions. In the struggle for existence between organisms or institutions that is the fittest to survive, which is the best fitted to accomplish the

particular purpose which it is its duty to accomplish. Now the duty and purpose of money is to pay debts and to buy commodities, and the fittest money for that purpose is the money which can be most easily obtained. It is clear to everyone that the money most easily obtained is the poorest money. If two coins of an equal purchasing and debt paying power are in existence in a country, any person wishing to pay a debt will naturally use the poorer (and more easily obtained money) for this purpose, while the better money will be hoarded, melted down, or exported.

The working of this law is thus explained by Mr. Jevons:

“In all other matters everybody is led by self-interest to choose the better and reject the worse; but in the case of money, it would seem as if they paradoxically retain the worse and get rid of the better. The explanation is very simple. The people, as a general rule, do not reject the better, but pass from hand to hand indifferently the heavy and light coins, because their only use for the coin is as a medium of exchange. It is those who are going to melt, export, hoard, or dissolve the coins of the realm, or convert them into jewelry and gold leaf, who carefully select for their purposes the new heavy coins.

Gresham's law alone furnishes a sufficient refutation of Mr. Herbert Spencer's doctrine that money ought to be provided by private manufacturers. People who want furniture, or books, or clothes, may be trusted to select the best which they can afford, be-

cause they are going to keep and use these articles; but with money it is just the opposite. Money is made to go. They want coin, not to keep it in their own pockets, but to pass it off into their neighbors' pockets; and the worse the money which they can get their neighbors to accept, the greater the profit to themselves. Thus there is a natural tendency to the depreciation of the metallic currency, which can only be prevented by the constant supervision of the state.

From Gresham's law we may infer the necessity of two precautions in the regulation of the currency. In the first place, the standard coins, as issued from the mint, should be as nearly as possible of the standard weight, otherwise the difference will form a profit for the bullion-broker and exporter. In the second place, adequate measures must be taken for withdrawing from circulation all coins which are worn below the least legal weight, otherwise they will continue to circulate as token coins for an indefinite length of time. All commerce consists in the exchange of commodities of equal value, and the principal money should consist of pieces of metal so nearly equal in metallic contents, that all persons, including bullion dealers, bankers, and other professed dealers in money, will indifferently substitute one coin for another. But it is obvious that these remarks do not apply to coins intended to serve as tokens, since the current value of tokens exceeds their metallic value, and every one who uses them otherwise than in ordinary circulation will lose the difference. Hence the weight of a token coin is comparatively a matter of indifference, so long as people

will receive them, and the deficiency of weight is not too great a temptation to the false coiner.”¹

Section 66. Report of the Monetary Commission Upon the Functions of Money.

The Monetary Commission of 1897, in their report gives the following statement as to different functions of money, and as to the kind of money which best performs these functions.

“In early times the different functions of money were not clearly developed in distinct form. The article chosen as the standard was commonly used as a medium of exchange. But as soon as confidence arose between merchants, the exchange of goods did not necessarily require the use of the standard as money. In deciding upon an article which best serves society as money, it was evident that such an article, in early times, must have (so far as one article possibly could) both the qualities demanded for a standard and those demanded for a medium of exchange. In our day, however, when so many substitutes are used as media of exchange to save the use of the standard commodity, it is not so necessary that the article chosen as the standard should possess all the qualities expected of a good medium of exchange. For the standard, as already explained, the chosen article should itself have (1) **value**, and so far as possible (2) **stability of value**. For the medium of exchange it should possess (3) **portability**. That is, the value must be so related to weight and bulk of the material that the denominations of

¹ Jevons, pp. 82-3. “Money and the Mechanism of Exchange.”

money in use shall not be inconveniently heavy, or inconveniently minute. To a poor people like that of India, where payment for services are necessarily of small amounts, the silver rupee is well suited; but in France and the United States the five-franc piece and the dollar, are used; while for larger sums gold is required. Cheap and heavy substances like iron and copper are obviously unfit for a medium of exchange in these days, because of their lack of portability. The material used as money should also have (4) **indestructibility**. Perishable commodities like eggs and fish—although they have been so used—are not well suited to be passed about from hand to hand without suffering deterioration. Again, the substance of the money should be (5) **homogeneous**; that is, of the same quality throughout, so that equal weights would have the same value. Consequently such money could be melted up and divided, or put together again, without losing any of its material, or its value. This quality of (6) **divisibility** really confines the choice of money to certain metals. And lastly, the money should be made out of such a material that most persons can easily recognize it at sight; that is, it should have (7) **cognizability**.”²

“In the preceding sections, attention has been confined to the two functions of money, known as (1) as the Standard or Common Denominator of Value, and (2) as the Medium of Exchange. Concerning transactions begun and ended on the spot nothing more need be said; but the fact of contracts over a period of time introduces a new and important element—the time element. Whenever a contract is

² Report of the Monetary Commission, p. 82.

made covering a period of time, within which serious changes in the economic world may take place, then difficulties may arise as to what is a just standard of payments. Various articles might serve equally well as a standard for exchanges performed on the spot, but it is not so when any one article is chosen as a standard for deferred payments. Without much regard to theory, the world has in fact used the same standard for transactions whether settled on the spot, or whether extending over a period of time.

In order to work with perfection as a standard for deferred payments, the article chosen as that standard should place both debtors and creditors in exactly the same absolute, and the same relative, position to each other at the end of a contract, that they occupied at its beginning; this implies that the chosen article should maintain the same exchange value in relation to goods, rents, and the wages of labor at the end as at the beginning of the contract, and it implies that the borrower and lender should preserve the same relative position as regards their fellow producers and consumers at the later as at the earlier point of time, and that they have not changed this relation, one at the loss of the other. This makes demands which any article that can be suggested as a standard cannot satisfy. And yet it is a practical necessity of society that some one article should in fact be selected as the standard. The business world has thus been forced to find some commodity which—while admittedly never capable of perfection—provides more nearly than anything else all the essentials of a desirable standard.”⁸

⁸ Id., p. 93.

Section 67. Is the Present Currency and Banking System of the United States to Be Permanent?

It is not probable that the United States has yet reached the final stage in the development of its system of currency or banking. The present currency system, while believed by the majority of the voters of this country, to be a very great improvement on any system which has preceded it in this country, is yet entirely satisfactory to nobody. The present National banking system is not only still bitterly opposed by what are generally referred to as the radical political elements in the country, but has also been recently denounced by some leaders among the bankers themselves.

As the prosperity of the modern financial and industrial organization is so dependent upon the existence of a sound and effective system of currency and banking, the improvement of such systems must necessarily be one of the most vital problems now before the American people. The three remaining sections of this volume will therefore be devoted to a consideration of some of the objections to the existing systems of currency and banking, the suggested changes in such systems, and some conjectures as to the character of the ultimate system of currency to be adopted by this country. It is to be hoped that future discussions on the subjects of currency and banking in this country can be conducted on a basis of logic and facts, free from the abuse and appeals to prejudice which have disgraced discussions on these subjects in this country in the past.

Section 68. Objections to the Present Currency and Banking System of the United States.

1. The use of precious metals as a circulating medium is, in a sense, a loss to the community as a whole, of a certain amount of productive capital. A certain amount of the labor of the community must constantly be expended in supplying gold and silver for use as coins. Such coins, the produce of such labor, themselves, neither supply any human want, nor assist in the production of new wealth, they are merely employed as a medium by which the exchange of other commodities between the different members of the community, may be effected. The benefit to the community by such exchange is, of course, infinitely greater than the value of the currency used to exchange them (when we consider the vast number of exchanges which in the end may be effected through the agency of a single coin), but if such exchanges could be effected without the sacrifice of so much capital for that purpose, there would be just as much net gain to the community.

This point is illustrated by the account given by Prof. Sumner of the early currency situation in the New England colonies:

“The English Government made no objection to the emigration of the Puritans to New England, save that they carried money out of the realm. The earliest settlers carried very little; other forms of capital were more valuable to them, and they had no use for it, save in exchanges amongst themselves. Yet Winthrop wrote to his son, in 1630, especially to bring £150 or £200 in money. Later settlers brought

money to exchange for cattle, seed, and other forms of capital which the first colonists had already accumulated. In this form, the law that every community will have so much of the precious metals as it needs for its exchanges vindicated itself in their case.

* * * *

The colonists began, soon after the settlement of Massachusetts Bay, to use a barter currency, ostensibly because they had not money enough: really because they wanted to spare the world's currency to purchase real capital, which was their true need. The currency history of this country has been nothing but a repetition of this down to the present hour. It has always been claimed that a new country must be drained of the precious metals, or that it could not afford so expensive a medium. The new country really needs capital in all forms. The only question is, whether, being poor and unable to get all that it wants, it can better afford to do without foreign commodities or without specie currency."⁴

This matter is more clearly brought out at the present time by the fact that a large, and ever increasing, proportion of the gold and silver coins of the United States do not actually circulate, but are merely held in the vaults of the United States treasury as security for the gold and silver certificates which do actually circulate.

2. It is now generally conceded that the sum total of the circulating medium in the United States is too small. Even those who a few years ago ridiculed the "quantitative" theory of money, and were fond of repeating the old saying that "nimble six-

⁴ Sumner's History of American Currency, pp. 1, 5 and 6.

pences do the work of slow shillings'' are now among the loudest in the advocacy of more money. The difference between these and their old time opponents is now mainly on the question as to the kind of money which shall be provided.

The need of a larger quantity of money in the country is particularly felt at certain seasons of the year, and under certain special conditions, which brings us to the next objection, which is,

3. That there is not sufficient elasticity in our present currency and banking system.

4. A large element in the country look upon the present National bank notes as an ideal currency. This class lament the fact that not only is any substantial increase of such money possible under existing laws, but on the other hand the gradual payment of the United States bonds will, in time, entirely do away with this species of money.

Section 69. Proposed Changes in the Currency and Banking Systems of the United States.

The proposed changes in our currency system which have already been considered by the voters and rejected; viz.: the free coinage of silver, and an increased issue of greenbacks, have already been discussed in this volume. More recently changes have been proposed by representatives of those elements who have been mainly instrumental in the establishment of our present system.

The most important of these proposals have been those looking towards a greater issue of National bank notes, by allowing these banks to issue such notes on other security than National bonds. The

supporters of this plan are far from agreeing among themselves as to what securities should be accepted for such purpose. In particular there is more or less disagreement between the eastern and western bankers on this question.

A temporary Act (expiring by limitation on June 10, 1914) was passed in 1908 for the purpose of allowing the issuance of "asset-currency" by banks which become members of National Banking Associations. The provisions of this act were as follows:

An Act to amend the National banking laws.

"Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That National banking associations, each having an unimpaired capital and a surplus of not less than twenty per centum, not less than ten in number, having an aggregate capital and surplus of at least five millions of dollars, may form voluntary associations to be designated as National currency associations. The banks uniting to form such association shall, by their Presidents or Vice-Presidents, acting under authority from the Board of Directors, make and file with the Secretary of the Treasury a certificate setting forth the names of the banks composing the association, the principal place of business of the association, and the name of the association, which name shall be subject to the approval of the Secretary of the Treasury. Upon the filing of such certificate the associated banks therein named shall become a body corporate, and by the name so designated and approved may sue and be sued and exercise the powers of a body corporate for the purposes hereinafter mentioned: Provided, That not

more than one such National currency association shall be formed in any city; Provided further, That the several members of such National currency association shall be taken, as nearly as conveniently may be, from a territory composed of a State or part of a State, or contiguous parts of one or more States: And provided further, That any National bank in such city or territory, having the qualifications herein prescribed for membership in such National currency association, shall, upon its application to and upon the approval of the Secretary of the Treasury, be admitted to membership in a National currency association for that city or territory, and upon such admission shall be deemed and held a part of the body corporate, and as such entitled to all the rights and privileges and subject to all the liabilities of an original member: And provided further, That each National currency association shall be composed exclusively of banks not members of any other National currency association.

The dissolution, voluntary or otherwise, of any bank in such association shall not affect the corporate existence of the association unless there shall then remain less than the minimum number of ten banks: Provided, however, That the reduction of the number of said banks below the minimum of ten shall not affect the existence of the corporation with respect to the assertion of all rights in favor of or against such association. The affairs of the association shall be managed by a board consisting of one representative from each bank. By-laws for the government of the association shall be made by the board, subject to the approval of the Secretary of the Treasury. A presi-

dent, vice-president, secretary, treasurer, and an executive committee of not less than five members, shall be elected by the board. The powers of such board, except in the election of officers and making of by-laws, may be exercised through its executive committee.

The National currency association herein provided for shall have and exercise any and all powers necessary to carry out the purposes of this section, namely, to render available, under the direction and control of the Secretary of the Treasury, as a basis for additional circulation any securities, including commercial paper, held by a national banking association. For the purpose of obtaining such additional circulation, any bank belonging to any national currency association, having circulating notes outstanding secured by the deposit of bonds of the United States to an amount not less than forty per centum of its capital stock, and which has its capital unimpaired and a surplus of not less than twenty per centum, may deposit with and transfer to the association, in trust for the United States, for the purpose hereinafter provided, such of the securities above mentioned as may be satisfactory to the board of the association. The officers of the association may thereupon, in behalf of such bank, make application to the Comptroller of the Currency for an issue of additional circulating notes to an amount not exceeding seventy-five per centum of the cash value of the securities or commercial paper so deposited. The Comptroller of the Currency shall immediately transmit such application to the Secretary of the Treasury with such recommendation as he thinks proper, and

if, in the judgment of the Secretary of the Treasury, business conditions in the locality demand additional circulation, and if he be satisfied with the character and value of the securities proposed and that a lien in favor of the United States on the securities so deposited and on the assets of the banks composing the association will be amply sufficient for the protection of the United States, he may direct an issue of additional circulating notes to the association, on behalf of such bank, to an amount in his discretion, not, however, exceeding seventy-five per centum of the cash value of the securities so deposited: Provided, That upon the deposit of any of the State, city, town, county, or other municipal bonds, of a character described in section three of this Act, circulating notes may be issued to the extent of not exceeding ninety per centum of the market value of such bonds so deposited: And provided further, That no national banking association shall be authorized in any event to issue circulating notes based on commercial paper in excess of thirty per centum of its unimpaired capital and surplus. The term "commercial paper" shall be held to include only notes representing actual commercial transactions, which when accepted by the association shall bear the names of at least two responsible parties and have not exceeding four months to run.

The banks and the assets of all banks belonging to the association shall be jointly and severally liable to the United States for the redemption of such additional circulation; and to secure such liability the lien created by section fifty-two hundred and thirty of the Revised Statutes shall extend to and cover the

assets of all banks belonging to the association, and to the securities deposited by the banks with the association pursuant to the provisions of this Act; but as between the several banks composing such association each bank shall be liable only in the proportion that its capital and surplus bears to the aggregate capital and surplus of all such banks. The association may, at any time, require of any of its constituent banks a deposit of additional securities or commercial paper, or an exchange of the securities already on deposit, to secure such additional circulation; and in case of the failure of such bank to make such deposit or exchange the association may, after ten days' notice to the bank, sell the securities and paper already in its hands at public sale, and deposit the proceeds with the Treasurer of the United States as a fund for the redemption of such additional circulation. If such fund be insufficient for that purpose the association may recover from the bank the amount of the deficiency by suit in the circuit court of the United States, and shall have the benefit of the lien hereinbefore provided for in favor of the United States upon the assets of such bank. The association or the Secretary of the Treasury may permit or require the withdrawal of any such securities or commercial paper and the substitution of other securities or commercial paper of equal value therefore.

Sec. 2. That whenever any bank belonging to a national currency association shall fail to preserve or make good its redemption fund in the Treasury of the United States, required by section three of the Act of June 20, 1874, chapter 343, and the provisions of this Act, the Treasury of the United States shall

notify such national currency association to make good such redemption fund, and upon the failure of such national currency association to make good such fund the Treasurer of the United States may, in his discretion, apply so much of the redemption fund belonging to the other banks composing such national currency association as may be necessary for that purpose; and such national currency association may, after five days' notice to such bank, proceed to sell at public sale the securities deposited by such bank with the association pursuant to the provisions of section one of this Act, and deposit the proceeds with the Treasurer of the United States as a fund for the redemption of the additional circulation taken out by such bank under this Act.

Sec. 3. That any national banking association which has circulating notes outstanding, secured by the deposit of United States bonds to an amount of not less than forty per centum of its capital stock, and which has a surplus of not less than twenty per centum, may make application to the Comptroller of the Currency for authority to issue additional circulating notes to be secured by the deposit of bonds other than bonds of the United States. The Comptroller of the Currency shall transmit immediately the application, with his recommendation, to the Secretary of the Treasury, who shall, if in his judgment business conditions in the locality demand additional circulation, approve the same, and shall determine the time of issue and fix the amount, within the limitations herein imposed, of the additional circulating notes to be issued. Whenever after receiving notice of such approval any such association shall deposit

with the Treasurer or any assistant treasurer of the United States such of the bonds described in this section as shall be approved in character and amount by the Treasurer of the United States and the Secretary of the Treasury, it shall be entitled to receive, upon the order of the Comptroller of the Currency, circulating notes in blank, registered and countersigned as provided by law, not exceeding in amount ninety per centum of the market value, but not in excess of the par value of any bonds so deposited, such market value to be ascertained and determined under the direction of the Secretary of the Treasury.

The Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept as security for the additional circulating notes provided for in this section, bonds or other interest-bearing obligations of any State of the United States, or any legally authorized bonds issued by any city, town, county, or other legally constituted municipality or district in the United States which has been in existence for a period of ten years, and which for a period of ten years previous to such deposit has not defaulted in the payment of any part of either principal or interest of any funded debt authorized to be contracted by it, and whose net funded indebtedness does not exceed ten per centum of the valuation of its taxable property, to be ascertained by the last preceding valuation of property for the assessment of taxes. The Treasurer of the United States, with the approval of the Secretary of the Treasury, shall accept, for the purposes of this section, securities herein enumerated in such proportions as he may from time to time determine, and he may with such

approval at any time require the deposit of additional securities, or require any association to change the character of the securities already on deposit.

Sec. 4. That the legal title of all bonds, whether coupon or registered, deposited to secure circulating notes issued in accordance with the terms of section three of this Act shall be transferred to the Treasurer of the United States in trust for the association depositing them, under regulations to be prescribed by the Secretary of the Treasury. A receipt shall be given to the association by the Treasurer or any assistant treasurer of the United States, stating that such bond is held in trust for the association on whose behalf the transfer is made, and as security for the redemption and payment of any circulating notes that have been or may be delivered to such association. No assignment or transfer of any such bond by the Treasurer shall be deemed valid unless countersigned by the Comptroller of the Currency. The provisions of sections fifty-one hundred and sixty-three, fifty-one hundred and sixty-four, fifty-one hundred and sixty-five, fifty-one hundred and sixty-six, and fifty-one hundred and sixty-seven and sections fifty-two hundred and twenty-four to fifty-two hundred and thirty-four, inclusive, of the Revised Statutes respecting United States bonds deposited to secure circulating notes shall, except as herein modified, be applicable to all bonds deposited under the terms of section three of this Act.

Sec. 5. That the additional circulating notes issued under this Act shall be used, held, and treated in the same way as circulating notes of national banking associations heretofore issued and secured by a

deposit of United States bonds, and shall be subject to all the provisions of law affecting such notes except as herein expressly modified: Provided, That the total amount of circulating notes outstanding of any national banking association, including notes secured by United States bonds as now provided by law, and notes secured otherwise than by deposit of such bonds, shall not at any time exceed the amount of its unimpaired capital and surplus: And provided further, That there shall not be outstanding at any time circulating notes issued under the provisions of this Act to an amount of more than five hundred millions of dollars.

Sec. 6. That whenever and so long as any national banking association has outstanding any of the additional circulating notes authorized to be issued by the provisions of this Act it shall keep on deposit in the Treasury of the United States, in addition to the redemption fund required by section three of the Act of June 20, 1874, an additional sum equal to five per centum of such additional circulation at any time outstanding, such additional five per centum to be treated, held, and used in all respects in the same manner as the original redemption fund provided for by said section three of the Act of June 20, 1874.

Sec. 7. In order that the distribution of notes to be issued under the provisions of this Act shall be made as equitable as practicable between the various sections of the country, the Secretary of the Treasury shall not approve applications from associations in any State in excess of the amount to which such State would be entitled of the additional notes here-

in authorized on the basis of the proportion which the unimpaired capital and surplus of the national banking associations in such State bears to the total amount of unimpaired capital and surplus of the national banking associations of the United States: Provided, however, That in case the applications from associations in any State shall not be equal to the amount which the associations of such State would be entitled to under this method of distribution, the Secretary of the Treasury may, in his discretion, to meet an emergency, assign the amount not thus applied for to any applying association or associations in States in the same section of the country.

Sec. 8. That it shall be the duty of the Secretary of the Treasury to obtain information with reference to the value and character of the securities authorized to be accepted under the provisions of this Act, and he shall from time to time furnish information to national banking associations as to such securities as would be acceptable under the provisions of this Act.

Sec. 9. That section fifty-two hundred and fourteen of the Revised Statutes, as amended, be further amended to read as follows:

‘Sec. 5214. National banking associations having on deposit bonds of the United States, bearing interest at the rate of two per centum per annum, including the bonds issued for the construction of the Panama Canal, under the provisions of section eight of “An Act to provide for the construction of a canal connecting the waters of the Atlantic and Pacific oceans,” approved June 28, 1902, to secure its circulating notes, shall pay to the Treasurer of the United

States, in the months of January and July, a tax of one-fourth of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds; and such associations having on deposit bonds of the United States bearing interest at a rate higher than two per centum per annum shall pay a tax of one-half of one per centum each half year upon the average amount of such of its notes in circulation as are based upon the deposit of such bonds. National banking associations having circulating notes secured otherwise than by bonds of the United States shall pay for the first month a tax at the rate of five per centum per annum upon the average amount of such of their notes in circulation as are based upon the deposit of such securities, and afterwards an additional tax of one per centum per annum for each month until a tax of ten per centum per annum is reached, and thereafter such tax of ten per centum per annum, upon the average amount of such notes. Every national banking association having outstanding circulating notes secured by a deposit of other securities than United States bonds shall make monthly returns, under oath of its president or cashier, to the Treasurer of the United States, in such form as the Treasurer may prescribe, of the average monthly amount of its notes so secured in circulation; and it shall be the duty of the Comptroller of the Currency to cause such reports of notes in circulation to be verified by examination of the banks' records. The taxes received on circulating notes secured otherwise than by bonds of the United States shall be paid into the Division of Redemption of the Treasury and credited and added

to the reserve fund held for the redemption of United States and other notes.'

Sec. 10. That section nine of the Act approved July 12, 1882, as amended by the Act approved March 4, 1907, be further amended to read as follows:

'Sec. 9. That any national banking association desiring to withdraw its circulating notes, secured by deposit of United States bonds in the manner provided in section four of the Act approved June 20, 1874, is hereby authorized for that purpose to deposit lawful money with the Treasurer of the United States and, with the consent of the Comptroller of the Currency and the approval of the Secretary of the Treasury, to withdraw a proportionate amount of bonds held as security for its circulating notes in the order of such deposits: Provided, That not more than nine millions of dollars of lawful money shall be so deposited during any calendar month for this purpose.

'Any national banking association desiring to withdraw any of its circulating notes, secured by the deposit of securities other than bonds of the United States, may make such withdrawal at any time in like manner and effect by the deposit of lawful money or national bank notes with the Treasurer of the United States, and upon such deposit a proportionate share of the securities so deposited may be withdrawn: Provided, That the deposits under this section to retire notes secured by the deposit of securities other than bonds of the United States shall not be covered into the Treasury, as required by section six of an Act entitled "An Act directing the purchase of silver bullion and the issue of Treasury notes

thereon, and for other purposes," approved July 14, 1890, but shall be retained in the Treasury for the purpose of redeeming the notes of the bank making such deposit.'

Sec. 11. That section fifty-one hundred and seventy-two of the Revised Statutes be, and the same is hereby, amended to read as follows:

'Sec. 5172. In order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same. Such notes shall state upon their face that they are secured by United States bonds or other securities, certified by the written or engraved signatures of the Treasurer and Register and by the imprint of the seal of the Treasury. They shall also express upon their face the promise of the association receiving the same to pay on demand, attested by the signature of the president or vice-president and cashier. The Comptroller of the Currency, acting under the direction of the Secretary of the Treasury, shall as soon as practicable cause to be prepared circulating notes in blank, registered and countersigned, as provided by law, to an amount equal to fifty per centum of the capital stock of each national banking association;

such notes to be deposited in the Treasury or in the subtreasury of the United States nearest the place of business of each association, and to be held for such association, subject to the order of the Comptroller of the Currency, for their delivery as provided by law: Provided, That the Comptroller of the Currency may issue national bank notes of the present form until plates can be prepared and circulating notes issued as above provided: Provided, however, That in no event shall bank notes of the present form be issued to any bank as additional circulation provided for by this Act.'

Sec. 12. That circulating notes of national banking associations, when presented to the Treasury for redemption, as provided in section three of the Act approved June 20, 1874, shall be redeemed in lawful money of the United States.

Sec. 13. That all acts and orders of the Comptroller of the Currency and the Treasurer of the United States authorized by this Act shall have the approval of the Secretary of the Treasury who shall have power, also, to make any such rules and regulations and exercise such control over the organization and management of national currency associations as may be necessary to carry out the purposes of this Act.

Sec. 14. That the provisions of section fifty-one hundred and ninety-one of the Revised Statutes, with reference to the reserves of national banking associations, shall not apply to deposits of public moneys by the United States in designated depositaries.

Sec. 15. That all national banking associations designated as regular depositaries of public money

shall pay upon all special and additional deposits made by the Secretary of the Treasury in such depositories, and all such associations designated as temporary depositories of public money shall pay upon all sums of public money deposited in such associations interest at such rate as the Secretary of the Treasury may prescribe, not less, however, than one per centum per annum upon the average monthly amount of such deposits: Provided, however, That nothing contained in this Act shall be construed to change or modify the obligation of any association or any of its officers for the safe keeping of public money: Provided further, That the rate of interest charged upon such deposits shall be equal and uniform throughout the United States.

Sec. 16. That a sum sufficient to carry out the purposes of the preceding sections of this Act is hereby appropriated out of any money in the Treasury not otherwise appropriated.

Sec. 17. That a Commission is hereby created, to be called the 'National Monetary Commission,' to be composed of nine members of the Senate, to be appointed by the Presiding Officer thereof, and nine members of the House of Representatives, to be appointed by the Speaker thereof; and any vacancy on the Commission shall be filled in the same manner as the original appointment.

Sec. 18. That it shall be the duty of this Commission to inquire into and report to Congress at the earliest date practicable, what changes are necessary or desirable in the monetary system of the United States or in the laws relating to banking and currency, and for this purpose they are authorized to sit

during the sessions or recess of Congress, at such times and places as they may deem desirable, to send for persons and papers, to administer oaths, to summons and compel the attendance of witnesses, and to employ a disbursing officer and such secretaries, experts, stenographers, messengers, and other assistants as shall be necessary to carry out the purposes for which said Commission was created. The Commission shall have the power, through subcommittee or otherwise, to examine witnesses and to make such investigations and examinations, in this or other countries, of the subjects committed to their charge as they shall deem necessary.

Sec. 19. That a sum sufficient to carry out the purposes of sections seventeen and eighteen of this Act, and to pay the necessary expenses of the Commission and its members, is hereby appropriated, out of any money in the Treasury not otherwise appropriated. Said appropriation shall be immediately available and shall be paid out on the audit and order of the chairman or acting chairman of said Commission, which audit and order shall be conclusive and binding upon all Departments as to the correctness of the accounts of such Commission.

Sec. 20. That this Act shall expire by limitation on the 30th day of June, 1914.

Approved, May 30, 1908."

Two new suggestions as to the reform of the currency system have been, from time to time, tentatively advanced by members of the more radical political elements of the country. These two suggested systems are briefly:

1. A system of unsecured Treasury notes whose

number shall be regulated (and the notes thus kept from depreciating) by some application of the "multiple standard;" and

2. An issue of paper money by the United States which shall be neither unsecured (as the greenbacks) nor secured by unproductive capital lying idle in the vaults of the Treasury (as the gold and silver certificate), but which shall be secured by some species of productive capital to be owned by the government.

This second system is the idea of those who favor the governmental ownership of public utilities.

The details of neither of these systems have ever been worked out.

Section 70. The Money of the Future.

It is not the intention of the author to attempt the role of a prophet in the field of finance, or to present any Utopian scheme of currency, which will solve all financial difficulties. It is believed, however, that the past history of currency shows to some extent the direction which the future development of currency is most likely to take.

First, the money to actually circulate in future (except fractional currency) will probably be paper. The increased quantities of gold and silver coins which remain in the vaults of the treasury show that the people desire paper rather than metal coins for actual use. The greater convenience and economy in the use of paper currency is too evident to need discussion.

Second, the paper money which circulates will be secured in some manner. The dangers and temptations which arise out of an unsecured paper currency are too great to permit a country, under wise financial

control, to issue any great amount of such unsecured paper. The form of such security in the future is doubtful, it may consist of gold or silver coins or bullion, or of government or other bonds, or it may take any of numerous other forms. It is probable, however, that:

Third, there will be a constant tendency towards substituting some productive form of security in place of unproductive securities. The net gain to the community, in such an event will be very great, and there seem to be no sufficient counteracting disadvantages to such a policy.

With the inauguration of the Federal Reserve Bank system in 1914, the currency has been rendered more elastic for commercial purposes and it is believed that many of the dangers which threatened the banking system of the United States in the past have thereby been obviated, so that its future is now regarded with more confidence by bankers and the public.

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